AUGUST 1954

Mortgage Banker

in this issue

MBA Calendar

August 22-27, 1954, Western Mortgage Banking Seminar, Stanford University, Stanford, California.

September 27-30—41st Annual Convention and Exhibit of Building Industry and Services, Conrad Hilton Hotel, Chicago.

THIS MONTH'S COVER

THE MORTGAGE BANKER's customary cover is usually a news picture of some MBA activity. Not so for August 1954. Instead it's a peaceful scene of some place in the West (we have no idea where), put there to suggest that these are vacation days and a time to take it a little easy. Besides, August is the low point of the year in MBA activities. And we could go on and on: it's hot in most places and pictures of feverish activities just make one hotter.

But—as you might expect — somewhere in this train of thoughts there must be a point, a "message" to get across. Here it is: This is August and next month is September and that's Convention month. The point is that MBA's big 41st annual convention is just around the corner. If you haven't perfected your plans, better get with it, as they say. Make your hotel reservation and send in your advance registration. And for more details, see page 28.

The Mortgage Banker

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GEORGE H. KNOTT, Editor

Executive and Editorial Office
111 West Washington Street, Chicago 2

Washington Office
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Volume 14 **AUGUST, 1954** **Number 11**

Contents

A BETTER MORTGAGE

Any mortgage becomes a safer and therefore a better mortgage when the title is insured.

To investors in mortgage loans, title insurance policies say: "You are protected against financial losses which may be caused by mistakes made in abstracting and examining titles and in preparing legal papers affecting title. You are also protected against losses caused by concealed title defects, such as forged deeds and releases. Moreover, should anyone ever question the titles to the properties securing your loans, the insurance company will defend, without any cost to you, all legal actions or proceedings against you which allege the titles to be other than as insured."

If you would like to consider making your mortgages safer and therefore better mortgages with title insurance, we shall appreciate an opportunity to consult with you.

Our company is one of the Nation's largest, strongest and best known title insurance companies. Its title policies are accepted and often preferred by large corporate investors in mortgage loans.

Lawyers Title Insurance Corporation

Operating in New York State as

(Virginia) Lawyers Title Insurance Corporation

Home Office – Richmond, Virginia

TITLES INSURED THROUGHOUT 38 STATES

NATIONAL TITLE DIVISION OFFICES

Chicago New York

BRANCH OFFICES IN:

Akron, O.	Dayton, O.	Richmond, Va.
Atlanta, Ga.	Decatur, Ga.	Roanoke, Va.
Augusta, Ga.	Detroit, Mich.	Savannah, Ga.
Birmingham, Ala.	Miami, Fla.	Springfield, Ill.
Camden, N. J.	Newark, N. J.	Washington, D. C.
Cincinnati, O.	New Orleans, La.	White Plains, N. Y.
Cleveland, O.	New York, N. Y.	Wilmington, Del.
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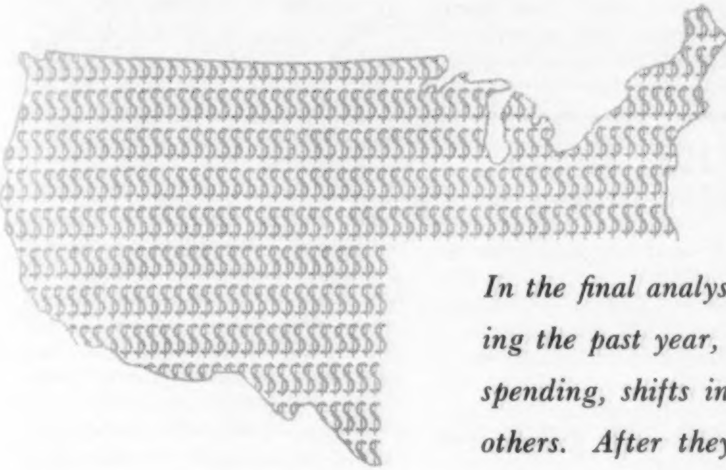

THE KEY TO GOOD TIMES

In the final analysis, the key is always spending. During the past year, we've had declines in some kinds of spending, shifts in other kinds and little change in others. After they've been analyzed, it's easy to see why the so-called readjustment hasn't been more severe than it was.

By DR. GORDON W. McKINLEY

IN THE second quarter of 1953, the production of all goods and services in the United States—what economists call the gross national product—reached an all-time peak. In that quarter, gross national product was running at an annual rate of $371 billion. Since then, gross national product has declined slowly but steadily until in the first quarter of 1954 it had fallen to $359 billion. In other words, the total production of goods and services in the United States has fallen in the past nine months by slightly over 3 per cent.

What caused this decline? Why did business activity, which had been humming ahead at a phenomenal pace up until the middle of 1953, suddenly reverse direction and go into this gentle decline?

Business activity in the United States depends on *spending*. If we have lots of spending, business booms. If spending declines, business activity declines. There are lots of different kinds of spending in the United States. There is government spending, business spending on plant and equipment, spending for the purchase of homes, consumer spending, and finally, business spending on inventory. The question is: Which of these different types of spending has declined in the past year? Which of them is responsible for the fall in business activity?

If we had to rely solely on published accounts of lower sales of automobiles, apparel, and other selected consumer goods, our first answer might be that it is consumer spending that has declined and brought on the current adjustment.

Yet nothing could be further from the truth. Total consumer expenditures on goods and services are now running at a level equal to the highest point reached in 1953. Consumer expenditures in the first quarter of 1954 were *higher* than in the first quarter of 1953.

It is true that consumers have shifted the *type* of their spending. They are now spending more on services and less on durable goods than in 1953. But such shifts in consumer spending are always going on in our flexible economy. Total consumer spending is now at an all-time high. The present dip is most certainly not due to a fall in spending by ultimate consumers.

Is the dip, then, due to a decline in business spending on plant and equipment? Again the answer is no. Business expenditures on plant and equipment are, like consumer expenditures, approximately equal to the high point reached in the middle of 1953. This is one of the most encouraging factors in the present business picture. There was a time when business would have scurried for the storm cellar at the first sign of an adjustment, and in doing so they would have cut back their capital goods spending and thus brought on the very recession they feared. Today we have a different breed of businessmen—men who have faith in our economy and are willing to back up that faith with dollars. Business today is continuing the tremendous investment in capital equipment which has characterized the whole postwar period—and by doing so, business is contributing its part to a stable and

prosperous economy.

What about expenditures on housing? Housing is holding up at an amazingly high level. Private housing starts thus far in 1954 have been running at over a million a year, and total expenditures on non-farm residential construction in the first quarter were almost exactly equal to the first quarter of 1953.

The decline in business activity has therefore not been due to a decline in consumer expenditures, nor to a decline in business spending on plant and equipment, nor to a decline in housing expenditures. This leaves only two other major spending segments in the economy—government spending and business spending on inventory.

These two spending segments are in fact the culprits. The total decline in gross national product is just equal to the total decline in government spending and in business spending on inventory.

Spending of the federal government has declined $5 billion from the peak rate of 1953. State and local government expenditures, however, have risen by $2.5 billion. Total government spending on goods and services has therefore fallen $2.5 billion since the high point of 1953.

Business spending on inventory requires a good deal of explanation, not only because it has been the principal cause of the present business dip but because its relation to gross national product is sometimes misunderstood.

There are periods when all business in the United States is holding inventory fairly constant. During such periods business establishments are on the one hand using up inventories as they supply the orders of their customers. But they are on the other hand replenishing inventories by buying raw materials and semi-manufactured goods from other business establishments. When this is happening, business at various stages of production are simply passing along the orders of the ultimate consumer.

During other periods, however, businesses buy more raw materials and semi-manufactured goods from their suppliers than they need to satisfy the orders of customers. In this case they are building up inventories. They are not simply passing along the spending of the consumers; they are adding to that spending some spending of their own. The result of this additional spending is that business activity as a whole rises above a level which the ultimate consumer is willing to endorse. As a result of this inventory accumulation, we have a period when total business activity is maintained at artificially high levels and the economy appears more prosperous than it actually is.

1953 Record 1954 Prospects

This is what happened in the first half of 1953.

In the first half of 1953 business was accumulating inventories at the rate of about $5.5 billion a year. In other words, it was adding $5.5 billion of its own spending on inventory, in addition to such spending as was needed to satisfy consumer orders. Such an accumulation of inventory could not, of course, be maintained. Business, suddenly realizing that inventories were rising at an alarming rate, began in the last half of the year to cut back this type of spending. By the fourth quarter of 1953, business not only had ceased accumulating inventories but was actually reducing inventories. This was therefore a sort of negative spending. Instead of passing along the full volume of consumer orders, business was living off existing inventories. As a result, total business activity declined below the level which one would have expected on the basis of consumer orders themselves.

In the first quarter of 1954 this run-down of inventories has continued and been accentuated. In the first three months of this year total business inventories declined at a rate of $4.5 billion a year. Since the middle of 1953, inventory spending has therefore shifted from a plus $5 billion to a negative $4.5 billion. This has meant that $9.5 billion has been subtracted from total spending and therefore from our total production of goods and services. When we add to this decline the $2.5 billion decline in government spending, we end up with the total decline of about $12 billion in gross national product.

The decline in total business activity which has occurred since the middle of 1953 is therefore correctly described as an inventory adjustment. Of the total fall of $12 billion in gross national product, $9.5 billion has been due to a reduction in inventory spending, the remaining $2.5 billion being accounted for by the fall in government expenditures.

The amazing thing about the present business picture—and the thing which seems very significant for the future—is that, during all this adjustment, there has been no reduction in consumer spending, no reduction in business spending on plant and equipment, and no reduction in spending on homes. These important spending segments—accounting for almost 80 per cent of the total production of goods and services in the United States—have continued steadily along refusing to be panicked into a pessimistic contraction.

Now what about the rest of 1954? If this is an inventory adjustment, when will it be completed? What is likely to happen to each of the major spending segments in our economy in the next eight months? Let's take them up briefly one at a time, and if you will note my conclusion with respect to each separate segment, we can total them all up to see what is likely to happen to business activity as a whole.

» BUSINESS EXPENDITURES ON PLANT AND EQUIPMENT. The latest McGraw-Hill survey indicates that businessmen plan to spend on plant and equipment in the remainder of 1954 at about the same rate they are now spending. I am slightly less optimistic. I think we must count on a decline of at least one billion dollars in the annual rate of spending in this sector. This type of spending by itself will therefore tend to pull down total business activity a billion dollars below its present level.

» SPENDING ON HOMES. If the housing bill at present being considered by Congress is passed, the current rate of housing starts can be maintained for the rest of the year. An increase in fixup work should offset any decline in home prices, so that total spending on homes will remain at about its present high level.

The housing sector will thus continue to contribute its present force to total business activity but will not tend to raise or lower total business activity.

» GOVERNMENT SPENDING. Any further decline in Federal spending over the remainder of this year will be minor, and will be entirely offset by a continued rise in state and local government spending. Government spending will therefore cease to exercise the downward pull it has exerted on the economy in the past nine months. Since, on the other hand, it will not be rising, it will not contribute to any change in the present level of business activity.

» INVENTORY SPENDING. We can expect a major upward influence on the economy from this sector, not because business will start to accumulate inventories, but because it will cease inventory liquidation. The major factor in the decline in business since last year has been the shift from a policy of inventory accumulation to one of inventory liquidation. The inventory adjustment is now about completed. Inventories at the retail level in most industries are already down to satisfactory levels. The ratio of inventories to sales for department stores, for example, has been cut down below the level at the beginning of 1953. In many lines the inventory adjustment has carried all the way back to the manufacturer. The total business inventories in the United States will remain for the rest of the year at approximately the level that they have reached in the month of May.

Since there will be no accumulation of inventories, this factor will not exert any upward effect on total business activity. But it is important to note that the $4.5 billion downward influence which was exerted in the first quarter by inventory liquidation will be removed.

Finally, what is likely to happen to consumer buying during the remainder of 1954? By the end of 1954 consumers will be buying at a rate of $4 billion above the present level. In the first quarter of this year consumers were saving at one of the highest rates on record. This saving was undoubtedly partly motivated by consumer caution in the face of the uncertain business situation. The upturn in business which is already underway will I believe, build up consumer confidence, so that they will return to a more normal distribution of their incomes between saving and spending. This fact alone will add $2 billion to consumer spending. Gradually rising employment will account for the remaining $2 billion.

Now let's add up the changes which we expect in these five major spending segments. Business capital spending may decline one billion dollars; there will probably be no change in total expenditures on homes; government spending will also remain constant because rising state and local government expenditures will offset a minor decline in Federal Government expenditures; inventory spending will have an upward effect of about $4 billion not because of a rise in inventories but because of the cessation of inventory liquidation; and finally consumer spending will rise by about $4 billion. When we add up the changes in these spending segments, they total a plus $7 billion. This means that total business activity at the end of the year should be running at an annual rate $7 billion above the first quarter of this year.

If these estimates prove correct, the gross national product in the last quarter of 1954 should be around $366 billion. The average for the year as a whole will be about $362 billion. In other words, my forecast for 1954 as a whole is that total business activity will be between 1 per cent and 2 per cent below the record year 1953. I believe it will be about 4 per cent above the very prosperous year 1952.

INTEREST RATES TO REMAIN LOW

Turning to interest rates, Dr. McKinley thinks the general level will remain low this year and guesses that maybe mortgage rates might even be a shade lower than they are now. The Federal Reserve, in his opinion, has gone completely overboard in its easy money policy. Dr. McKinley is chief economist of Prudential Insurance Company.

THE general business atmosphere in which we will be operating for the rest of the year will be a favorable one. But what about interest rates? What about the price which you are going to be able to charge on the money you lend out?

The principal rate is the mortgage loan rate, and it might seem logical to discuss housing and the supply and demand for home mortgages. But unfortunately the problem is not so simple. The mortgage loan rate is really not determined in the mortgage loan market at all. It is determined, like all interest rates in the United States, in the government securities market.

Here is how the government securities market determines the yield which you get on mortgages. There is not just one price for money in the United States, but a whole array of prices; there is not just one interest rate, but a whole spectrum of interest rates. Mortgage loan rates are typically higher in the West and the South than in the North and the East. The yield on governments is very different from the yield on mortgages.

In addition to these different rates, there are many other variations in interest rates. Rates vary according to risk, and according to term, and according to tax characteristics of the security, and according to a whole host of differences in different types of loans.

Although there are many different interest rates, all interest rates are related or bound together into a loose bundle, so that generally they tend to move together. The principal explanation for this common movement of interest rates is that lenders, and borrowers, can move from one type of security to another. If rates on a

certain type of loan get very high relative to other types of loans, then lenders tend to move to the high yield security and borrowers tend to move to the low yield security, so that the rates are forced closer to each other.

It is correct to think of a spectrum, or bundle, of rates moving up and down together. But while rates generally move in the same direction, some are much more sensitive and flexible than others.

Probably the most sensitive rate in the United States is what is called the Federal Funds rate. This is the rate that bankers pay to each other when they borrow balances at the Federal Reserve Bank. This rate often fluctuates violently from as little as ⅛ per cent up to 1½ per cent. This rate therefore tells us the day to day variation in the very short term market.

Next in line of sensitivity comes the Treasury bill rate. And after that the rates on all government securities. Still less sensitive, but nevertheless quite flexible, are the commercial paper rate, the bankers acceptance rate, and the rates on different kinds of corporate bonds.

As we begin to move away from these sensitive rates, we come to the sticky, slow-moving end of the rate spectrum. Here is the mortgage loan rate, the prime commercial bank rate, and, finally, perhaps stickiest of all, the consumer loan rate.

When an over-all movement in interest rates begins, the movement is of course first reflected in the sensitive end of the spectrum. The yields on Federal Funds, Treasury bills and other government securities will perhaps begin to move upward. More slowly will follow bankers acceptance, commercial paper, and corporate bond rates. If the movement continues long enough, changes will finally occur in mortgage loan rates, and the prime commercial bank rate. Only a very long and wide movement in the rest of the market will cause a change in consumer loan rates.

There can be many movements in the flexible rates which are never reflected at all in the sticky rates. We frequently have government securities moving up and down with no apparent effect on mortgage loan rates. This is because the movement is not continued long enough and is not drastic enough to work its way into the sticky part of the spectrum. But if the flexible rate movement is persistent, we can be sure that eventually the slow-moving money rates will follow suit.

"The purpose of an easy money policy should be to insure a supply of loanable funds adequate to meet all sound demands at reasonable rates. We have had that adequate supply for some time now, and certainly rates cannot be described as high. When the easy money policy is pushed beyond the point of adequacy and is used deliberately to knock down interest rates to extremely low levels, it seems to me to have passed the point where it is being used as a stabilizing device."

Thus, all interest rates in the United States are related to each other and, because of this relationship, movements in one part of the total money market will sooner or later be transmitted to all the other parts. But this relationship alone is not of course sufficient to justify my statement that the government securities market determines mortgage loan rates. Why, for example, do I not say that mortgage loan rates determine government security rates?

There is of course some interaction between all money rates, and it is true that conditions in the mortgage loan market have some effect on conditions in the government securities market. But I think there is good reason to hold that it is the government securities market which controls all the other money markets. This good reason is found in the existence of one agency in the government securities market which can act either as borrower or lender, and whose resources are so great that it can borrow or lend amounts which, for all practical purposes, have no limit. This agency is the Open Market Committee of the Federal Reserve System.

The Federal Reserve banks are authorized to buy or sell government securities in the open market, and they can, in practice, buy or sell in such volume that they can completely control this market. At present the Federal Reserve banks hold over $24 billion of government securities. This gives you an idea of the downward effect which they could exercise on government security prices if they chose to unload any appreciable part of their holdings. On the buying side, their ability is also practically unlimited. Since they pay for the government securities with drafts drawn on themselves and since these drafts are eventually deposited with themselves, they do not operate under the usual difficulties which the rest of us have with respect to money.

These powers are not just theoretical powers; they are exercised almost every week. If the Federal Reserve wishes to make money easy, it buys government securities. The first and immediate effect of this purchase is of course to strengthen the price of government securities, thus forcing down yields in the government security market. But in addition to this first effect, there is a further easing effect because the Federal Reserve Bank creates the money which it uses to buy the government securities. It thus pours out that much new money into circulation. This new money swells the reserves of the commercial banking system and puts pressure on them to get these funds to work.

As this new money works its way first into one loan market and then into another, it begins to force down a whole series of interest rates. A further effect is produced by the fact that, as the prices of government securities rise in response to the Federal Reserve purchases, investors tend to sell governments to take advantage of the high price, and less new money flows to governments because of the declining yield. Money formerly in the government securities market thus goes out into other loan markets. The initial easing in the government securities market spreads in ever widening scope out into all the money markets of the United States, causing all rates to follow government security rates.

In the first few months of 1953, a fairly tight money situation developed. The demand for business loans was very heavy, construction was booming, consumer loans were rising rapidly, and state and local governments were in the market for large financing. In addition, the federal

government, faced with receipts somewhat below what it had anticipated, was doing considerable net new borrowing. The money market was further tightened by the outflow of gold from the United States and by the failure of money in circulation to contract in accord with normal seasonal patterns.

The Federal Reserve was apparently of the opinion that the underlying situation was inflationary, so that it took no action to ease this tight money market. As might be expected, interest rates of all kinds rose strongly.

In May, however, the Federal Reserve apparently changed its mind about the underlying business situation. It made a few cautious open market purchases. Then suddenly, in the first part of June, the Federal Reserve banks stepped into the market in a drastic way. Federal Reserve holdings of government securities in the first three weeks of June rose by the tremendous sum of over a billion dollars. The effect on the money market was immediate and drastic. Money rates, which had been climbing rapidly, suddenly reversed direction and headed for the cellar. The reversal quickly spread from the government securities market to the corporate bond market, to the open market in commercial paper, and to other sensitive rates.

Now, it is true that business activity also turned down about the middle of 1953. A part of the easing in the money market has therefore been due to some decline in the demand for loans. But the drastic manner in which interest rates turned down and the extent to which they have subsequently declined has not of course been simply a reflection of lessened business and consumer borrowing. The course of interest rates has been the direct result of Federal Reserve actions designed to knock down these rates.

The principal reason why I have briefly traced the 1953 movement of the money market is to indicate where we must look if we want to know what is going to happen to interest rates during the remainder of this year. Interest rates, including mortgage loan rates, will be determined less by the course of housing and general business activity in 1954 than they will be by the deliberations of the Federal Reserve Board. In attempting to forecast the future direction of interest rates, we must therefore attempt to forecast Federal Reserve policy.

What sort of policy can be expected from the Federal Reserve Board during the remainder of 1954?

"I can see no justification for driving treasury bills down to the point where corporations choose to keep their short term funds in idle bank balances rather than buy bills. I am in agreement with the use of monetary policy in an attempt to offset fluctuations in general business activity. I support the use of general credit controls such as are being employed by the Federal Reserve. I agree that the present situation calls for an easy money policy. But the extent to which that policy is now being carried seems completely unjustified."

A clue to Federal Reserve policy in the period ahead is provided by Federal Reserve actions during the past year. Since May, 1953, the Federal Reserve has poured into circulation over $800 million of new money through open market purchases of government securities, released over $1 billion of bank reserves through a lowering of reserve requirements, and has twice lowered the rediscount rate. Federal Reserve spokesmen have left no doubt that their intention has been not simply to prevent a tight money market, but to actively pursue an easy money market. At the time of the most recent change in the discount rate, it was announced that the reduction was in line with the continued policy of "active ease" being pursued by the Federal Reserve.

Everyone is entitled to his own particular choice of words, but I would call the policy of the Federal Reserve one of "aggressive ease" rather than "active ease."

It seems to me—and I would like to emphasize that I am speaking for myself alone — that the Federal Reserve has gone completely overboard in its easy money policy. I can see no justification, for instance, for driving Treasury bills down to the point where corporations choose to keep their short-term funds in idle bank balances rather than buy the bills.*

I am heartily in agreement with the use of monetary policy in an attempt to offset fluctuations in general business activity. I also support the use of general credit controls such as are being employed by the Federal Reserve. I agree further that the present situation calls for an easy money policy. But the extent to which that policy is now being carried seems to me completely unjustified.

The purpose of an easy money policy should be to insure a supply of loanable funds adequate to meet all sound demands at reasonable rates. We have had that adequate supply for some time now, and certainly rates cannot be described as high. When the easy money policy is pushed beyond the point of adequacy and is used deliberately to knock down interest rates to extremely low levels, it seems to me to have passed the point where it is being used as a stabilizing device. It then constitutes a device for forcing lenders to subsidize borrowers. It constitutes a device whereby the depositors and policyholders of life insurance companies—most of whom are not wealthy individuals—must subsidize all borrowers.

I am well aware of the political pressures on the Federal Reserve, and of the great responsibilities which they shoulder. But it is certainly fair to ask whether an aggressively easy money policy is appropriate to a situation in which prices are stable, construction is booming, wages are rising, and over-all business activity is showing good signs of recovery.

Returning, then, to the question of the outlook for interest rates—the best guess would appear to be that rates will remain low for the remainder of this year. The Federal Reserve gives no evidence of modifying its policy of active ease, and there is of course an election this November. With respect to mortgage loan rates in particular, I would not be surprised if they were slightly lower at the end of the year than they are now.

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*Dr. McKinley's views were recorded before the recent Federal Reserve action in cutting bank reserve requirements, thereby releasing from $6 to $7½ billion in loanable funds. This action of course gives more emphasis than ever to his assertion that our central monetary authorities are indeed going much farther than seems justified in creating easy money.

How Canadian Life Companies Invest

By **P. S. BOWER**

Assistant General Manager and Treasurer
The Great-West Life Assurance Company, Winnipeg

BY THE beginning of this year, Canadian assets of Canadian life insurance companies doing business in Canada amounted to $3,446 million, diversified as follows:

Bonds:	
Dominion Govts.	19%
Provincial Govts.	7
Municipals	7
Corporates	22
Stocks	2
Mortgages	32
Real Estate	2
Other	9

Into this pool of $3,446 million, there is flowing a net addition of over $240 million a year. Not only do the companies have this net inflow for investment in Canada but, in addition, as much as another $130 million or so, representing the amortization on their Canadian mortgage portfolios and serial repayments on bonds and debentures.

With the sharp rise in security prices, two other sources of funds for reinvestment may be expected to expand this year. Sales of securities can be effected more advantageously—and therefore may be expected to increase the flow of investible funds—while refundings — dormant now for two or three years—will undoubtedly be undertaken by some borrowers who were moved to borrow within the last 18 months or so when interest rates were much higher than they are today.

How much will this all amount to? The two big unknown amounts are security sales by the industry and the volume of refundings to which portfolios will be exposed. Last year, the total volume of funds invested by all life insurance companies doing business in Canada was about $500 million.

This figure cannot be broken down very accurately, but it is possible to say that some $240 million came from new funds of Canadian companies, representing, in effect, the increase in their assets; a further $120 million came from mortgage repayments to the same companies; and the balance from other sources, principally repayments and sales of securities. This year, the total will be larger.

P. S. Bower

The continuation of the invesment of large amounts of funds by the life companies in mortgages is not a new departure in the investment history of our industry. It has a firmly established precedent going back to the earliest days of our companies when the bulk of our government and corporate financing was placed in London where such flotations were far more readily absorbed than they could possibly have been in a scattered economy like early Canada's

It was natural, however, for the local capital needs, which seldom warranted the cost of a London offering, to be sought from local lenders, of which the early life companies were an accessible source. What was more natural than for local mortgage needs to be met by the companies!

Not only have these investments proved satisfactory over the years, but by helping to provide adequate housing and services, they contribute to a healthy and happy atmosphere and environment. The great expansion in the mortgage portfolios of the companies since the war is a natural reassertion of an investment characteristic which has long prevailed among our companies, accentuated for the time being by the delayed action caused by the building recession of the '30s and the retarding influences of the Second World War. There is no doubt that mortgages will continue to provide an investment medium for a substantial proportion of investible funds under normal circumstances.

The character of mortgages has changed radically in the last 15 years. The old conception of a mortgage was essentially that it was a non-liquid investment. This attribute was heightened by the fact that it was most uncommon for principal payments to be required at any time before maturity —with the result that the approach of this event was usually regarded by both parties with considerable misgivings. Frequently, the mortgage had to be refunded — out of necessity rather than desire by both parties—so that mistakes were only too often compounded, until the only solution was an application to foreclose with its attendant repercussions and losses.

They give high investment consideration to mortgages, and have for a long time. At the beginning of this year, nearly a third of the Canadian assets of Canadian life companies was in mortgage loans. The prospect, says Mr. Bower, is for continued heavy purchases of mortgages. Here he also tells something of the investment philosophy which guides the Canadian life companies.

The development of equal monthly payments over a period of years, with ultimately, complete amortization of the mortgage, has changed the character of the lowly mortgage—like the glass slipper changed Cinderella. It is now a beautiful thing. It glows with its accustomed superior return—it shines with liquidity—and its garments are hung with such trappings of grandeur as government guarantees such as used to be reserved almost entirely to more elegant instruments like C. N. R. bonds. Its liquidity is attested to by the fact that between 8 per cent and 10 per cent of Canadian life insurance companies' mortgage portfolios were repaid last year—during a period of high interest rates.

From 1945 to 1953, the major insurance portfolio changes were these:

>> Dominion government bonds declined from over 60 per cent to 19 per cent of Canadian assets.

>> Canadian corporate bonds increased from approximately 10 per cent to 22 per cent of Canadian assets.

>> Canadian mortgages increased from less than 15 per cent to 32 per cent of Canadian assets.

Important increases also occurred in municipal bonds and in investments in real estate, though smaller in the absolute amounts involved.

The close of the war found our insurance companies heavily invested in government bonds, which had been purchased in support of the war effort. There was, indeed, little alternative demand for the funds at the time. Was 60 per cent of assets too great a proportion to have invested in that form? The companies thought it was, in the light of the alternatives then beginning to be available to them. They were not unduly concerned to maintain any theoretical portfolio balance—except in the sense that the ideal portfolio should be so composed as to produce the best net-end result to the investor under circumstances as they are able to be foreseen at the moment.

As a practical matter, a large holding of government bonds yielding only 3 per cent was too rich for the digestion of the industry at a time when most of its contracts were written with a relatively high assumed rate of interest. The end of 1945 found the average gross rate earned by insurance companies on their investments at the low figure of 3.89 per cent, with a downward momentum which was not to be checked for a further two years. Meanwhile, the economy required new capital for postwar conversion and expansion in order to meet a long-restrained backlog of consumer demand. A residential building boom, under strong government sponsorship, also required to be financed. These projects offered interest rates more in keeping with the contractual needs and historical inclination of the insurance industry. Here, then, as in the United States, our companies found their government bonds a natural source of funds to augment their normal investible income to meet the demands and the investment opportunities of the postwar years.

Criticism was sometimes directed at the insurance companies, at the time, because of the ultimate inflationary effect of these sales of governments. No objection was raised, however, by the central banking authority which, as the only purchaser capable of absorbing so large a volume of bonds, needed only to withdraw its

support of the market to check the whole operation. Eventually, exactly this was done. In the meantime, however, the central bank, by tacitly maintaining the market, actively facilitated the flow of insurance funds into industry and the construction field, apparently feeling that the long-term answer to inflation was likely to be best found in expanding national production.

Government policy will always exercise a major influence on the investment operations of our companies. This has been increasingly the case since the emergence, 15 years ago, of the Bank of Canada as an effective instrument of government in directing the level of interest rates. The Bank's action not only affects business conditions generally, but frequently influences the manner in which life insurance companies' funds are to be employed.

If one seeks to trace investment policy through these postwar transactions, he may conclude that the companies were, in effect, running before the economic winds rather than following their own pre-designed programs. They bought great quantities of government-subsidized mortgages and accepted large blocks of securities underwritten by our good friends, the investment dealers. At the same time they were methodically changing the character of their portfolios along lines more suited to the requirements of the insurance business. They were also bringing their investing machinery to a level of efficiency probably not enjoyed by the industry previously. The mortgage field forces, which had declined in importance during the depression years, were rebuilt, and security analysis techniques were intensified.

The most generally recognized aspect of the government's influence on investment policy takes the form of direct statutory regulation. The Canadian and British Insurance Companies Act dictates the types of investments permitted to insurers. It provides for the inspection of their business, prescribes the form of their annual statement, and directs how their assets shall be valued for statement purposes. It prescribes penalties for failure to comply with its terms. The legal framework thus provided for Canadian insurance operations is less restrictive, perhaps, than that of some American states, but is considerably more restrictive than that of the United Kingdom. It is a natural development of the conditions under which the insurance business has grown up in Canada. It is a singular testimonial to the general acceptance of this Act, and to the sound administration it has received from the Dominion Department of Insurance, that the companies cheerfully conform to its provisions although they are aware that it is probably unconstitutional.

Must We Buy Governments?

One may express a personal view, however, that the Act would benefit, at least in its investment terms, from more frequent amendments in order to keep it abreast of the changing needs of the economy. After the late war, an industry committee undertook a study of the Act with a view to having it brought up to date. There had been relatively few major changes since the depression years and the companies accumulated a number of suggestions for amendments. With two or three important exceptions, their recommendations proved acceptable to the Department of Insurance and became law in 1948.

A further external influence upon the course of life insurance investment lies in the companies' awareness of their responsibility to use their funds so as to make the greatest possible contribution to the advancement of the Canadian economy. The life companies now marshall a very important part of the national savings and they recognize that their placement may be quite significant to the general economic welfare. It is pointed out with increasing frequency that anything which contributes to the general economic welfare must also contribute, in the long-run, to the welfare of insurance policyholders.

Is there some public obligation on insurance companies to hold government bonds in volume? We have already noted the inadequacy of the yield on governments in recent years in relation to the contractual obligation contained in most insurance contracts. A recent American study sums up the historic role of the government bond — as an investment medium for life insurance funds only in emergencies or when no other form of outlet is available, except to the degree that it is held for purposes of providing liquidity. So far as the liquidity factor is concerned, it has lost some of the significance it once possessed. The record of the industry shows that over a long period of years (including the depression thirties) the current income of life companies has always been greater than the outgo. Moreover, there is some reason to question whether government bonds, except of the short-term, could ever properly be considered to be entirely liquid investments.

The market for governments is, perhaps, somewhat more protected than it used to be, since we now have the paternal influences of the Bank of Canada. Nevertheless, the Bank is free to limit or withdraw its bids at its pleasure. The ordinary market is always unlikely to be able to absorb the sizable offerings which might appear in an emergency.

Expression has recently been given to the opposite view by O. Kelly Anderson, president of New England Mutual Life Insurance Company. Mr. Anderson is able to see a practical benefit to policyholders in the purchase of certain types of government bonds. The U. S. Treasury has indicated a desire to place a greater proportion of national debt in long-term securities but has not been able to do so. New and refunding Treasury issues have had to be placed in the short-term market where the commercial banks are the principal purchasers, and the resulting enlargement of bank reserves has been highly inflationary. Mr. Anderson reflects the concern of the industry about the injury which inflation can work upon the future beneficiaries of its policyholders. We have seen the purchasing power of the 1940 dollar decline to 53c and he points out that a continuation of that trend would be much more serious to the future recipient of insurance dollars than any small loss in interest yield now sustained by insurance companies through buying government bonds instead of higher-yielding securities. He suggests that life companies should stand ready to buy substantial amounts of long-term government bonds in order to keep government

financing on a non-inflationary basis so far as they are able.

In Canada, where government policy in this respect has been more successful—financing has been able to be carried out largely in the long-term market. The need for life company support is not at the moment so great—but investment officers would no doubt agree with Mr. Anderson that it is in the policyholders' long-term interest to do their part to support non-inflationary types of financing when other purchasers are not equal to the task.

Such influences on investment policy, external and internal, are only a sampling of those which have left their mark on postwar insurance portfolios.

If we choose now to look forward rather than back, it is already possible to see the emergence of new forces which will create new policy problems for the companies. For some time, we have been moving into a period of lower interest rates and we must still make some further adjustments if we are to continue to live with these. We must also recognize that, at least in some cases, these rates contain a concealed hazard from the fact that they are partly artificial—rather than the full product of free market interplay of supply and demand. If we believe that there is always a true price for the hiring of money and that that price is set by the balancing of supply and demand, it follows that insofar as artificial factors enable borrowers to obtain money at some other price, there is created a differential which has to be absorbed in another segment of the economy.

In recent years, there has been serious concern among insurance companies about the narrowing field of investments legally available to them. There is general confidence that our dynamic economy will develop new investment demands for the accumulated savings of life policyholders—in fact, it already appears that the financing which the future may require will not always be of the traditional types in which life companies are expected to invest—and our present powers of investment may not be wide enough to encompass them.

Research conducted in recent years within our industry confirms that the

growth of funds in the hands of institutions is proceeding at a more rapid pace than the supply of securities eligible for investment by them. The competition among investors for this relatively diminishing supply has a tendency to over-price such securities when they appear. As one authority describes the situation — institutional investors who are confined largely to the field of debt obligations are, in such circumstances, paying something for legality as distinguished from investment quality.

What are the new areas of investment capable of being opened to life insurance funds? Many are suggested but the only ones which seem likely to provide the volume required are in the equity or ownership field. The conception of an insurance company as an owner rather than a creditor in the field of finance is, of course, not new. For many years, the Canadian and British Insurance Companies Act has permitted the acquisition of preferred and common stocks and, since 1948, the ownership of real estate has also been allowed. The Act in its present form limits, however, directly as well as, perhaps, indirectly, the full use of these instruments.

In the case of real estate, we have the direct restriction to 5 per cent of assets which must cover purchases under the specific real estate section, as well as the real estate in the "basket." In setting this limit, the Insurance Authorities were understandably cautious—but perhaps we may hope that when we have had time to demonstrate the worthwhile character of such investments, the limit will be raised to substantially higher levels.

It is recognized that in acquiring equities the investor loses the benefit of the cushion which would protect him if he were only a creditor—but the insurance industry, as a whole, has always brought to bear that same degree of conservatism in the equity field that it has in the other classes of investment available to it.

We are not exposed to pressures to liquidate assets to raise funds. Our normal current income is, in practice, more than sufficient for all requirements and this is now augmented by the increasing volume of repayments on serial issues and the heavy monthly rate of repayment on mortgages.

It is evident, therefore, that the use of market values may, under unduly exaggerated or depressed market conditions, present an unfair picture of a company's financial position. A step was taken in the right direction in the latest amendment to the Insurance Act in permitting the use of amortized values instead of market values on direct and guaranteed Dominion, United States and United Kingdom federal bonds and Canadian provincial bonds—an amortized value being one determined by reference to the yield at which a security was originally purchased. This, of course, insulates the favored classification against portfolio market declines—but other important segments of our securities still remain fully exposed to the

uncertainties of the market, including the whole field of corporate bonds and stocks. A much greater measure of freedom has been granted insurance companies in the United States for many years, where practically all corporate bonds and debentures are now amortizable.

The fact that market values play such an important part in the considerations involved in the construction of company statements naturally has the effect of compelling unduly a company's attention to the likely market action of classes of securities from time to time as a matter of investment policy. Such considerations can frequently prejudice the pure investment merits of a situation. The use of amortized values for statement purposes, which has been so generally accepted as desirable in theory and has found such practical application in the insurance experience of the United States — would do much to correct this difficulty. The development of a systematic method of valuing common and preferred stocks for statement purposes — which would cushion the effect of wide fluctuations —has been under study for some time by an industry committee in the United States. It could do much to extend the attractiveness of the field of common and preferred stocks for life insurance investment in that country.

So long as companies are compelled to guard themselves against the possibility of wide market fluctuation on any considerable part of their assets, they will have little room to invest in preferred and common stocks—where market variation is seen in its most exaggerated form. Until this situation is corrected, even the present legal amount allowed to be held in common stocks is of little practical significance.

» NEW RISK PEAK: Ownership of life insurance in the U. S. rose to a new peak at mid-year, with record purchases estimated at $18,600,000,000 of new policies in the first six months of this year.

Aggregate life insurance protection of American families reached an estimated $319,000,000,000 on June 30. That is $15,000,000,000 more than at the start of the year; $29,000,000,000 more than at mid-year of 1953; and $177,000,000,000 more than ten years ago today.

The six-month purchases, which exclude credit life insurance, were $600,000,000 more than in the corresponding period of 1953 and $3,500,000,000 more than in the first half of 1952.

"Some measure of the increased buying of life insurance in recent years may be seen in the fact that the purchases in the first half of this year are some $12,000,000,000 more than in the like period of 1944," the Institute of Life Insurance says. "As a result, the number of life insurance policyholders has increased by 22,000,000 in ten years and the average amount of life insurance per family has risen from $3,000 to $5,800. And apparently both of these figures are continuing to increase."

VITAL STATISTICS f

JUNE brought added assurance of a pleasantly changing economic climate. The FRB index of industrial production kept on the up side, the volume of retail sales expanded, and, despite continued inventory reduction, wholesale prices held well [1]. (Note: Revision in the index figures now shows a low of 123 in March and April with recovery to 124 in May and June.)

A strong new push was given by an infusion of credit into the Federal Reserve System as the reserve requirements of member banks were reduced throughout the country. The yield on last May's 3¼ per cent issue headed to a new low [2]. A further mild easing of the whole interest rate structure is indicated by the figures for the first week in July.

The effects of ample credit are now clearly visible in the mortgage picture. Both FHA and VA [7] are doing business at the highest levels in over 3½ years. VA appraisal requests in June exceeded May's record high and almost doubled the figure for last June, while FHA, in a new upward spurt, topped its May total with a gain of 17 per cent.

Mortgage recordings for May [5] continued their steady month-to-month growth, again substantially exceeding the volume during the tight-money May of a year ago. All types of lending institutions shared in the advance over last year, except insurance companies. Mortgage acquisitions (as well as recordings) of life insurance companies [6] took a drop from April to May, with farm and conventional nonfarm loans showing sharp declines both on month-to-month and year-to-year comparisons. VA acquisitions in May, however, were almost 3 times the volume of last May, and FHAs were at least holding position from April to May.

Construction continued its lusty advance through June [3], moving confidently toward a new record for the year. The report on housing starts, although delayed by a revision in the series, is expected to show activity continuing at better than a million-a-year rate. In March, it was said here that hope for a change in the then declining level of business rested in the maintenance of construction activity and consumer spending. Both have responded, with satisfactory results.

(1). General Business Indexes
(1947-49=100)

	—1954—		—1953—		First 6 Months	
	June	May	June	May	1954[p]	1953
Industrial production*	124[p]	124	136	137	124	135
Wholesale prices	110.0[p]	110.9	109.5	109.8	110.6	109.7
Department store sales*	113[e]	108[p]	115	117	109	114

Sources: Federal Reserve Board, U. S. Department of Labor. [e]Estimated. [p]Preliminary.
*Seasonally adjusted.

(2). Bond Yields

	—1954—		—1953—		First 6 Months	
	June	May	June	May	1954	1953
Long-term U. S. governments:						
3¼% issue of May, 1953, 1978-83	2.70	2.72	3.29	3.26	2.77	—
Other long term issues	2.54	2.52	3.09	3.09	2.55	2.95
High-grade municipals (Standard & Poor's)	2.48	2.49	2.99	2.73	2.45	2.66
Moody's corporates, total	3.16	3.13	3.61	3.53	3.19	3.39
Moody's Aaa corporates	2.90	2.88	3.40	3.34	2.92	3.20

Source: Federal Reserve Board.

CS for the Mortgage Banker

(3). **Expenditures for New Construction Put in Place**
(millions of dollars)

	—1954—		—1953—		First 6 Months	
	June[p]	May	June	May	1954[p]	1953
Private	$2,244	$2,106	$2,187	$2,013	$11,435	$11,088
Residential (nonfarm)	1,148	1,082	1,123	1,012	5,647	5,536
Nonresidential building	530	491	479	451	2,914	2,652
Public utility	398	379	398	377	2,074	2,009
Farm and other	168	154	187	173	800	891
Public	1,078	991	1,037	947	5,154	5,164
Total	$3,322	$3,097	$3,224	$2,960	$16,589	$16,252

Source: U. S. Departments of Commerce and Labor. [p]Preliminary.

(4). **Number of Nonfarm Housing Units Started**

	—1954—		—1953—		First 6 Months	
	June[p]	May[p]	June	May	1954[p]	1953
Private	n.a.	105,500	102,000	105,600	n.a.	553,100
Public	n.a.	500	2,600	2,700	n.a.	28,300
Total	n.a.	106,000	104,600	108,300	n.a.	581,400

Source: U. S. Department of Labor. [p]Preliminary; figures are revised three months after issuance.
n.a. Not available; delay due to revision of the series.

(5). **Recordings of Nonfarm Mortgages of $20,000 or Less**
(millions of dollars)

	—1954—		—1953—		First 5 Months	
	May	Apr.	May	Apr.	1954	1953
Savings and loan associations	$ 675	$ 669	$ 642	$ 642	$2,994	$2,868
Commercial banks	330	333	317	325	1,535	1,506
Insurance companies	123	130	133	127	590	607
Mutual savings banks	118	112	111	102	502	481
Mortgage companies and others	558	549	496	513	2,557	2,364
Total	$1,804	$1,793	$1,699	$1,709	$8,178	$7,826

Source: Home Loan Bank Board.

(6). **Nonfarm Mortgage Acquisitions by Life Insurance Companies**
(millions of dollars)

	—1954—		—1953—		First 5 Months	
	May	Apr.	May	Apr.	1954	1953
Nonfarm	$318	$403	$308	$321[r]	$1,652	$1,580
FHA	48	47	62	77[r]	258	376
VA	85	86	30	27	351	136
Other	185	270	216	217[r]	1,043	1,068
Farm	24	40	36	43[r]	189	205
Total	$342	$443	$344	$364[r]	$1,841	$1,785

Source: Institute of Life Insurance. Data include nonresidential as well as residential mortgages. [r]Revised.

(7). **Applications to FHA for Insurance on New Construction, and Appraisal Requests to VA on New Construction**
(number of units)

	—1954—		—1953—		First 6 Months	
	June	May	June	May	1954	1953
FHA applications	40,485	34,715	31,159	39,421	201,451	200,986
Units in home mortgages	35,207	30,327	25,221	33,204	160,937	162,482
Units in project mortgages	5,278	4,388	5,938	6,217	40,514	38,504
VA appraisal requests	52,749	52,245	27,185	25,318	238,954	129,961

Sources: Federal Housing Administration, Veterans Administration.

The First MBA School

THE mortgage industry now has its own school, a completely professional school where those new in the business or just entering it can find authoritative instruction in all aspects of mortgages. Course I of MBA's School of Mortgage Banking was inaugurated in June at Northwestern University in Chicago as the successor to the Association's Mortgage Banking Seminars at the same institution.

One hundred and twenty registered for the first class and there would have been considerably more if facilities to accommodate them had been available. Of this group, 118 took the final examination, indicating that practically all are looking ahead to completing Courses II and III and receiving a completion certificate. Students were from 33 states and Canada and Hawaii, and from 64 cities including Honolulu, Montreal and Winnipeg.

The successful launching of the School of Mortgage Banking marked

>> FIRST CLASS: That's it, at the top of the page, the group that came to Northwestern University for Course I in 1954. As seems to have become traditional at MBA June educational programs, there was a heat wave. Down in the front row are MBA President W. A. Clarke, MBA Secretary and Treasurer George H. Patterson, Educational Committee Chairman Walter Nelson, Vice Chairman Martin O. McKevitt, Homer V. Cherrington and Harold W. Torgerson, of Northwestern, MBA Educational Director Frank J. McCabe, Jr., and others of the faculty.

>> LOAN COMMITTEE: Below, President Clarke making one of several talks he gave to the first class in MBA's school. Right, loan committee in action. Left to right, Addison C. Pond, supervisor of mortgages and real estate, National Life Insurance Company; R. Manning Brown, Jr., second vice president, New York Life Insurance Company; Lon Worth Crow, Jr., Lon Worth Crow Company, Miami; A. C. Bryan, vice president, mortgage loan department, Provident Life & Accident Insurance Company, Chattanooga; Carey Winston, The Carey Winston Company, Washington, D. C.; and Harry Held, vice president, The Bowery Savings Bank, New York.

hool of Mortgage Banking

one of the Association's most notable accomplishments and means we have attained a goal long desired in the field of mortgage education. MBA's educational program is only 10 years old and began with the senior officers course at New York University followed by the Seminar at Northwestern, then by the Seminar at Stanford University. In this brief period, nearly 2,000 younger people entering the mortgage field have been trained by experts in the field. The mortgage industry will be a better field because of the training these people have received.

Courses II and III are planned for 1955. In addition, the student will participate in reading assignments during the year. Then, after he has completed the full course, he will receive a completion certificate which will be a valuable business asset to him.

For the records, here is the list of those in the historic first class of the School of Mortgage Banking:

>> TEXTBOOK: MBA's textbook, *Mortgage Banking*, was—and will continue to be—an important tool in the School of Mortgage Banking. Students will get reading assignments in it and, in general, it will constitute an important educational guide in the courses to come. Here some Course I students are looking up a certain point: Paul B. Allen, Old Dominion Bank, Arlington, Virginia; Emil Coolidge, Ralph Talbot Company, Detroit; Herbert J. Buchman of Geo. C. Doering, St. Louis; Walter Coupe, Industrial National Bank of Providence, Providence, Rhode Island; and Eugene A. McSwenney, The Kentucky Trust Co., Louisville.

>> OUTLINES: Most students probably would have felt like a rider with a horse if they had not had handy the comprehensive outline received at the opening of the course. It contained all essential data about the schedule, information about MBA's educational program and an outline of every lecture they heard. Here a group is speculating on what's coming up in the next day's sessions: Edward A. Proctor, Jr., Proctor and Company, Detroit; and Alden E. Wagner, Henry H. Kahlman, III, and Henry D. Reynolds, American General Investment Corp., Houston.

ALABAMA

Montgomery

Grover Johnson, E. S. Watts & Co., Inc.

ARIZONA

Phoenix

Lawrence M. Winters, First Mortgage & Investment Co.

John Blundell, Norman Penquite and Everett Reed, Western American Mortgage Co.

Tucson

George V. Brandt, Jr., Southern Arizona Bank & Trust Co.

William G. Coons, Wilson Mortgage Co.

ARKANSAS

Little Rock

William A. Payne, William E. Terry & Co., Inc.

CALIFORNIA

Palo Alto

Thomas G. McMillan, McMillan Mortgage Co.

San Diego

Robert L. Black, Palomar Mortgage Co.

CANADA

Montreal

Sidney A. Shepherd, Bank of Montreal.

Winnipeg

James B. Argue, The Great-West Life Assurance Co.

COLORADO

Colorado Springs

Harry A. Scurr, The First National Bank of Colorado Springs.

Denver

Roger A. Nelson, Moore Mortgage Co.

Paul F. Hauptman, Record Abstract and Title Insurance Co.

DISTRICT OF COLUMBIA

Washington

James E. Millar, Weaver Brothers, Inc.

Malcolm A. Belt, American Security & Trust Co.

George M. Carpenter, Frank S. Phillips.

David E. Rozzelle, Security Bank.

William Leigh, Walker and Dunlop.

FLORIDA

Daytona Beach

George W. Lubke, Jr., George W. Lubke, Inc.

Jacksonville

George Dickerson and C. J. Hulsberg, Stockton, Whatley, Davin & Co.

Miami

J. S. Billings, Jr., Dade-Commonwealth Title Insurance Co.

Thomas Harrington, J. I. Kislak Mortgage Corp. of Florida.

C. J. Womble, Stockton, Whatley, Davin & Co.

Orlando

Bernard D. Wilkins, Jr., American Fire & Casualty Co.

Panama City

H. L. Sudduth, Jr., Sudduth Realty Co., Inc.

St. Petersburg

C. A. Williamson, The Builders Mortgage Corp.

GEORGIA

Atlanta

Francis S. Key, Etheridge & Vanneman, Inc.

Macon

Howard S. Patton, Griffith Mortgage Corp.

HAWAII

Honolulu

Charles R. Wade, American Factors, Ltd.

ILLINOIS

Bloomington

John C. Neff, State Farm Life Insurance Co.

Carbondale

W. E. Rood, Mercantile Mortgage Co.

Chicago

Robert P. Atkinson, Chicago Mortgage Investment Co.

S. Del Campo, Draper and Kramer, Inc.

Hugo A. Lorenz, The First National Bank of Chicago.

William N. Melzer, Great Lakes Mortgage Corporation.

Albert L. Gundelach, Greenebaum Mortgage Co.

Edward J. DeYoung, Mortgage Bankers Association of America.

Walter A. Dinnerville, Mutual Trust Life Insurance Co.

Douglas F. Graves, The Northern Trust Co.

Charles E. Seibert, Percy Wilson Mortgage & Finance Corp.

INDIANA

New Albany

Mrs. Zelpha S. Mitsch, Dale W. Mitsch Co.

South Bend

Joel Bullard, Charles E. Bullard Co., Inc.

IOWA

Des Moines

Paul J. Huelsbeck, Bankers Trust Company.

KENTUCKY

Louisville

Eugene A. McSwenney, The Kentucky Trust Co.

MARYLAND

Baltimore

George C. Radcliffe, The Baltimore Life Insurance Co.

MASSACHUSETTS

Worcester

Bradford M. Kingman, Worcester County Institution for Savings.

MICHIGAN

Detroit

William Rogers, Detroit Mortgage & Realty Co.

Edward A. Proctor, Jr., Proctor and Company.

Charles D. Scudder, Jr., Standard Mortgage Corporation.

Emil Coolidge, Ralph Talbot Company.

MINNESOTA

Minneapolis

John E. Nelson, The Marquette National Bank of Minneapolis.

MISSOURI

Kansas City

Charles H. Kopke, Commerce Trust Co.

St. Louis

Herbert J. Buchman, Geo. C. Doering, Realtors.

Edwin G. Hudspeth, Maginn-Martin-Salisbury, Inc.

Clifford M. Kurrus, Williams, Kurrus & Co.

NEW JERSEY

East Orange

O. A. Augustine, The Colonial Life Insurance Company of America.

Jersey City

John J. Flynn and Sheldon Heuer, J. I. Kislak Mortgage Corp.

NEW YORK

Binghamton

John M. Mazur, The Binghamton Savings Bank.

Brooklyn

Robert O. Heim, The Brooklyn Savings Bank

Jamaica

Ernest Hurwitz and Curtis Smith, Community Funding Corporation.

Edward P. Lenahan and Edgar Mock, J. Halperin & Company.

New York

Josiah P. Huntoon, Jr., Huntoon, Paige & Co.

Fred Ruhlin, Metropolitan Life Insurance Co.

James J. O'Connell, Jr., and Joseph G. Riddle, New York Life Insurance Co.

Henry P. Dart, Teachers Insurance & Annuity Association of America.

Rochester

Victor P. Hadeed, H. J. Ludington & Co.

Syracuse

Bernard J. Corbishley, Eagen Real Estate, Inc.

Tarrytown

Harry W. Baum and Edward A. Hummel, The County Trust Company.

NORTH CAROLINA

Charlotte

Dick Fulmer, Goodyear Mortgage Corporation.

Raleigh

W. S. Parks, Cameron Mortgage Company, Inc.

NORTH DAKOTA

Fargo

Ralph W. Martin, Fargo Investment Company.

OHIO

Cleveland

W. E. Miller, Jr., and Leonard J. Reitz, Fraser Mortgage Company.

M. A. Schneider, The Home Loan & Securities Corp.

Toledo

Richard A. Coble and John S. Wilson, Northern Ohio Investment Co.

OKLAHOMA

Tulsa

Earl G. Rowell, Chandler-Frates Company.

PENNSYLVANIA

Bethlehem

Charles W. Bassing, Jr., Union Bank & Trust Company of Bethlehem.

Levittown

William Doherty and Gilbert Spertell, Community Funding Corporation of Pennsylvania.

Philadelphia

John Spangler, Metropolitan Life Insurance Co.

RHODE ISLAND

Providence

Walter Coupe, Industrial National Bank of Providence.

Arthur DeCesare, People's Savings Bank in Providence.

TENNESSEE

Kingsport

Robert G. Burns, Moore & Walker, Inc.

Memphis

William S. Ray, The First National Bank of Memphis.

William G. Farr, Jr., Percy Galbreath & Son, Inc.

Elmore Harmon, Jr., United Service & Research, Inc.

TEXAS

Austin

Elmer A. Cook, D. L. Welch & Company, Inc.

Corpus Christi

M. J. Zerr, Jr., and Max F. Dullnig, Jr., Sessions Mortgage Company.

Dallas

Robert F. Ashley, Lawyers Title Insurance Corp.

P. M. Bowers, Lewis Grinnan Company.

Houston

Henry H. Kuhlmann, III, Henry D. Reynolds and Alden E. Wagner, American General Investment Corp.

Nathan S. Jarnigan, Jr., and Jerry B. Warren, T. J. Bettes Company.

Robert J. Logan, Realty Mortgage Company, Inc.

Ted J. Strempel, Jr., The Houston Mortgage Company.

Lubbock

Ted F. Schuler, Jr., Read-Thompson Mortgage Company.

San Antonio

A. H. Cadwallader, III, and A. C. McDavid, Jr., Mortgage Investment Corp.

UTAH

Ogden

James S. Eckels, Western Mortgage Loan Corp.

VIRGINIA

Arlington

Paul B. Allen, David G. Walker and J. H. White, Jr., Old Dominion Bank.

Richmond

Frank M. Galleher, Jr., Atlantic Life Insurance Company.

WASHINGTON

Everett

Stephen C. Saunders, Tyee Land Company.

Seattle

Carl A. Sandquist, Coast Mortgage & Investment Co.

William E. Hart, First Mortgage Company.

WEST VIRGINIA

Charleston

William A. Barton, Jr., The Kanawha Valley Bank.

WISCONSIN

Milwaukee

Raymond L. Callen, First Wisconsin National Bank.

Jaren E. Hiller, Ray P. Hiller Company.

Coming MORTGAGE SERVICING

A SIGNIFICANT achievement by the Mortgage Bankers Association in creating better tools to work with in the mortgage industry is scheduled for this Fall with the publication of the first complete and authoritative work on mortgage loan servicing. It is the new book by William I. De Huszar entitled *Mortgage Servicing* with publication scheduled for September.

Five years ago, MBA published a handbook by Mr. De Huszar called *Mortgage Loan Servicing Practices,* the first work of any kind ever issued on this subject. It filled a long felt need in the industry and was particularly timely because servicing had begun to be of far greater importance than it had in the past.

Now, with the publication of this successor volume, about everything there is to know in the field of mortgage loan servicing has been assembled in one place so that the working mortgage man can now make a complete study of this vital phase of his business, or can use the volume as a guide and reference. The book is being published as a companion volume to *Mortgage Banking** and supplements the story of mortgage lending told in that book.

Mortgage Servicing is divided into three parts: Part I is on Operating Principles, the Fundamentals of Servicing, Servicing Problems and Servicing Personnel. Part II describes the operating departments in the servicing side of the business—the Cashier, Accounting, Collection, Insurance and Tax Departments. Part III goes into Operating Techniques and describes Statistical and Cost Accounting Records, Customer Relations and Coordination and Internal Control.

What is particularly significant about the new De Huszar book is that it will answer the requirements of every type of mortgage firm, from the smallest to the largest. The two-person department will find all the problems which beset it described and analyzed; and the firm with a $100 million portfolio will find a discussion of the various problems which arise from such an extensive operation.

While obviously pointed to the servicing manager, the new book will find almost equal appeal to other personnel, particularly at the management level. Anyone engaged in the mortgage business will be better off if he understands all phases of its operation; but, all too frequently, the production side understands production, with little knowledge of the equally important servicing phase.

The book should have the greatest appeal for originators as well as purchasers and one of the things which it is anticipated the book will do is create a better understanding between correspondents and investors in servicing.

In the past ten years there have been more innovations in mortgage loan servicing than in any previous comparable period and all of them are described in the new volume. There are alternate methods of performing many functions. The author gives the advantages and disadvantages of each and, where possible, makes recommendations.

Mortgage Servicing has been in the planning stage almost since the time the original handbook was issued and has been in actual preparation for nearly two years. The author did research work in many cities in certain specific phases. In the final stages of preparation he had the assistance of an editorial advisory committee consisting of E. A. Camp, Jr., vice president, Liberty National Life Insurance Company, Birmingham; Thomas J. Maconkey, manager-administration, Metropolitan Life Insurance Company, New York, and Howard S. Bissell, president, Howard S. Bissell, Inc., Cleveland.

He had advice and assistance from many sources within MBA and has acknowledged his debt to them. Among these include W. James Metz, MBA director of servicing and accounting; Thomas E. McDonald, vice president, T. J. Bettes Company, Houston, Texas, former director; L. C. Forth, Sun Life Assurance Company, Montreal, Canada; Willis R. Bryant, American Trust Company, San Francisco; Fred K. Cordes, The Bowery Savings Bank, New York; Frank E. Denton, American Title and Insurance Company, Miami; M. J. Greene, Southern Trust and Mortgage Company, Dallas; Lemuel J. Holt, W. A. Clarke Mortgage Company, Philadelphia; D. A. Luff, Jay F. Zook, Inc., Cleveland; H. A. Melick, T. B. O'Toole, Inc., Wilmington; T. J. Melody, General Mortgage Corporation of Iowa, Des Moines; H. G. Murphy, Connecticut General Life Insurance Company, Hartford; Harry Post, Mutual Benefit Life Insurance Company, Newark; Ollie E. Rollins, Jr., Liberty National Life Insurance Company, Birmingham; Paul Vollmar, Jr., Realty Mortgage and Investment Company, Albuquerque; MBA Secretary George H. Patterson; William A. Clarke, W. A. Clarke Mortgage Company, Philadelphia; and Mr. Bissell, Mr. Camp, and Mr. Maconkey.

Publication of *Mortgage Servicing* is an event to anticipate because now, for the first time, a mortgage man will have a source to consult regarding every aspect of this important part of his business. Members will want to get the copies for their offices from the first printing; and to do so, they should use the coupon in the further announcement in this issue.

Mr. De Huszar has been a member of the MBA Servicing Committee since its inception and was chairman in 1950-51 and 1952-53. He has served in a similar capacity with the Chicago MBA and has spoken at many MBA clinics and conferences. He is a graduate of the University of Chicago and is treasurer of Dovenmuehle, Inc., Chicago, one of the oldest and largest mortgage companies in the country.

*Robert H. Pease, editor of *Mortgage Banking,* has written the article for the Encyclopedia Americana on mortgage banking to appear in the forthcoming January 1955 issue.

FARM LOANS

A monthly department of MBA's Farm Loan Committee: A. L. Bartlett, St. Joseph, Mo., chairman; and Frederick P. Champ, Logan, Utah; Roy C. Johnson, Newkirk, Okla.; E. W. vanTyen, Spokane; Paul Mann, Wichita; R. O. Deming, Jr., Oswego, Kan.; Fancher Upshaw, Jr., Amarillo; Elliot O. Waples, Cedar Rapids; H. H. Schnell, Fargo, N. Dak.

Farm Real Estate Values Off Slightly; Principal Declines in Drought Areas

FARM real estate values drifted moderately lower during the 4 months ended March 1, 1954. No significant change occurred in most of the North Central States, but declines of 2 to 4 per cent elsewhere reduced the average for the country as a whole 2 per cent below last November and 6 per cent below a year earlier. The national index of average value per acre for March was 120 (1947-49=100), and 197 in terms of the 1912-14 average.

Compared with a year earlier, values this March were lower in every state, but regional differences in the amount of change were less than usual. However, most of the states in which farm income was affected by drought and lower cattle prices in 1953 showed declines somewhat larger than average. In all areas, prices of top-grade farms did not decline as much as lower quality farms.

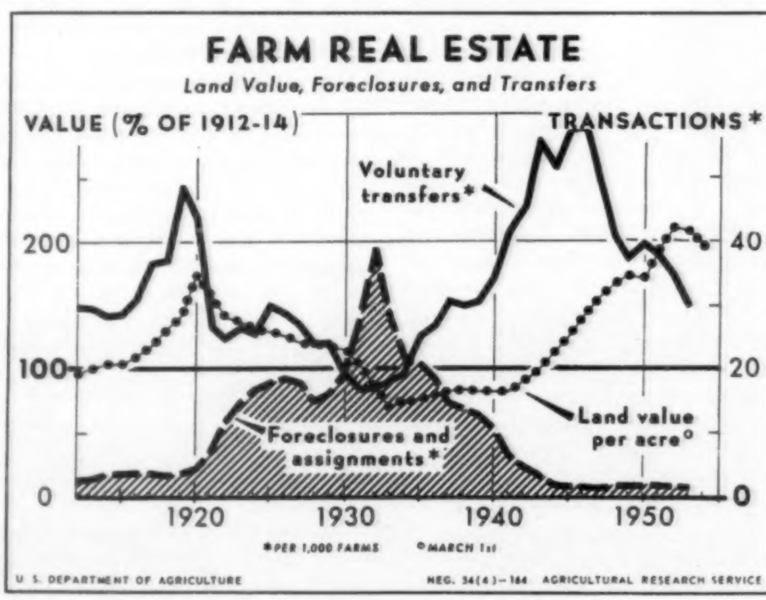
Some strengthening in prices of farm commodities since last fall helped to slow the rate of decline in land values that was under way from July to November, 1953. The sharp increase in hog prices and the more favorable returns from cattle feeding tended to sustain land values in many Corn Belt states. However, farm commodity prices are likely to weaken in late summer and fall under the pressure of the large output currently in prospect and the high level of carryover stocks of several major commodities. Some further decline in farmland values by next fall can be expected under these conditions.

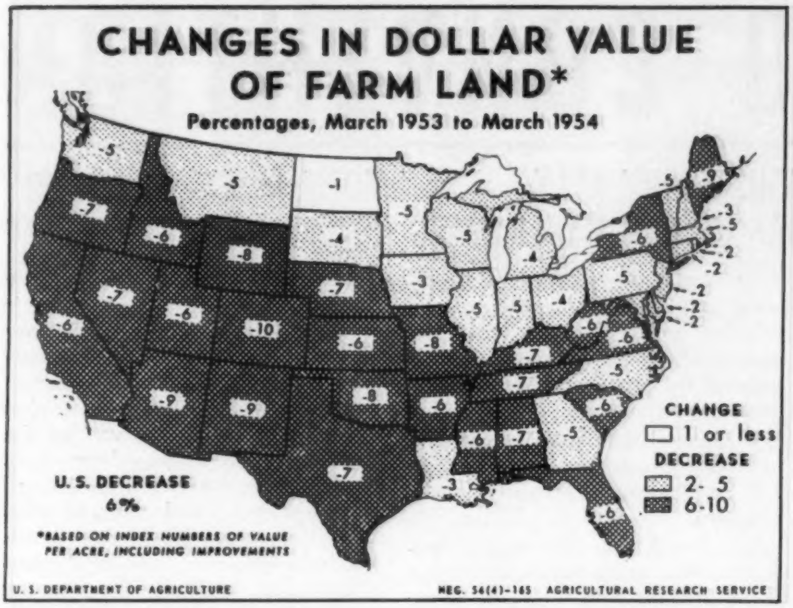
The total market value of farm real estate is estimated at $87,580 million as of March 1, 1954. This is a decline of $5.1 billion, or 5.5 per cent from a year earlier and 6.5 per cent from the record peak of March, 1952. The value of farm buildings is estimated at $23,036 million as of March 1, 1954, or 26.3 per cent of all farm real estate. This represents an average of about $4,300 per farm and $20 per acre of land in farms.

The volume of voluntary sales of farm property during the year ending March 15, 1954 was at the rate of 29.9 farms per 1,000, or 13 per cent below the previous year and only half as high as during the peak years 1946-47. The current rate is about at the level of the mid-thirties and of pre-World War I. The number of farm foreclosures was near the record low level of recent years, but slight increases occurred in several states in the drought area.

Farms bought during the year ending March 1954 were more frequently credit-financed than during any year since 1946. Only 29 per cent of the farms were bought for cash, whereas some form of credit was used to finance 71 per cent of the purchases. However, many prospective buyers lack sufficient cash to meet the downpayment requirements of many lenders who have generally become more selective in making loans during the last year. Interest rates on farm mortgages increased during 1951 and 1952, but some leveling off is indicated for 1954.

Many reporters said that it was difficult to appraise trends in market prices in recent months because the volume of sales in many areas was too small to establish a market. Although asking prices for much of the property on the market are still near the peak level of a year or two ago, buyers are generally unwilling to pay such prices in view of the reduced farm commodity prices and income. As a result, farms of average or below-average quality move slowly and it takes more time and effort to complete a sale. A seller must often make a substantial concession in price if he wishes an





immediate sale or if he does not want to assume part of the financing.

The extent of weakness in the market varies with the area, the class and type of property, and the availability of credit. In the best areas of the Corn Belt, auction sales of estate properties this spring were reported to bring prices only slightly lower than a year ago, while good farms offered in the usual way can still be sold readily. There are still enough buyers, both farmers and investors, who have the cash resources to purchase such properties and financing is usually available. The market is much weaker in the fringe areas of the Corn Belt, the drought areas, and portions of the Southeast and Mountain areas where there are fewer cash buyers and where many prospective buyers cannot meet the financing requirements of lenders. Within such areas, the market is also selective, with the better farms in an area moving more readily than those considered below average. This situation is in sharp contrast with the strong market during 1951 and 1952 when most classes of property sold readily.

Interest Still High in Part-Time Farms

The American public continued to show active interest in part-time farms throughout the land, it is disclosed by various activities in this market during the last six months.

Information about dealings in these small acreages held by city workers is contained in NAREB's 57th semiannual survey of the real estate market. A total of 246 boards in all sections of the country participated.

In the part-time farm section of the survey, 64 per cent of the boards identified prices as stable during the six-month period just ended, while 13 per cent reported they have risen.

More than one-half the returns classified the number of transfers of such small farms as the same as that during the previous six months, and another 20 per cent said these transactions increased.

About two-thirds of the reporting boards predicted prices would continue at present levels for the next six months, and another 11 per cent said they expect price rises.

What Is a Good Farm Loan Application?

What do you look for in a good farm loan, that is, what are the important points to check in processing an application?

The Utah Mortgage Loan Corporation, with headquarters in Logan, Utah, and operating extensively in the Mountain States area, enumerated the important items to check and incorporated them into a guide for the assistance of its local representatives. This chart, hanging in representatives' offices throughout the area, serves as a reminder of the items which must be checked before the application goes in.

These are the eight points:

Financial History. Has the applicant made financial progress in recent years? If the applicant's total debt is more than one-half of his net worth or if the applicant's current liabilities will equal his current assets after the proposed loan is made, you will save time by rejecting the application at the start.

Owner Equity. Will the applicant have the 60 per cent equity which should protect him in a declining market? With all conditions favorable he should have not less than a 50 per cent equity in his farm or ranch.

Purpose of Loan. Be specific in stating the exact purpose of the loan and state why you believe the granting of the proposed loan will benefit the applicant. Beware of bail-outs. Make sure any existing mortgages can be paid; also, give reason for making change. If proceeds are to be used to purchase other property state amount and terms of any deferred obligations incurred.

Earning Power. Does the earning power of the applicant and the property presented justify the assumption that the proposed loan and the applicant's other indebtedness can be carried without difficulty on normal prices? We prefer owner operated property with owner living thereon. On other cases we expect more liberal equity and earning margin.

Credit Record. Does the credit report and checking with local banks and other creditors indicate that the applicant is a good manager, meets his obligations, and customarily pays his bills promptly? Will applicant's bank or credit agency carry him for operating requirements after loan is made?

Disposition of Loan Proceeds. Be specific about disposition of proceeds of proposed loan, based upon statement of purpose as contained in application.

(Continued back inside cover)

CHICAGO CONVENTION

THE CHICAGO CONVENTION THIS YEAR LIKELY TO BE LARGEST MBA HAS HELD IN ITS 41 YEARS

MBA, for its 41st annual meeting, is coming back to Chicago where it has held more conventions than in any other city, largely because of its convenient location and its unexcelled facilities. Chicago always attracts a larger attendance than any other city and this is likely to be true again in 1954, when as many as three thousand are expected at the Conrad Hilton Hotel September 27 to 30.

It is a four day convention with five general sessions and two afternoons given over to committee meetings. The four morning sessions are scheduled from 9:30 until around 1:00 p.m. and the lone afternoon session, sponsored by the Young Men's Activities Committee, will be held Tuesday afternoon.

The convention program will be opened by President William A. Clarke with a short talk by Frederick Z. Gifford, president of the Chicago MBA. Following that will be the President's report and addresses by the president of one of the large life insurance companies and by a member of the Federal Reserve Board.

That afternoon, seven of the MBA committees for the new year will hold their initial meetings.

Next morning, Tuesday, September 28, the general convention theme will be "Making Mortgage Financing Available in Isolated Areas" and members will hear the official representative of the Housing and Home Finance Agency speaking on the objectives of the program, as well as a prominent life insurance official speaking from an investor viewpoint. Following that will be talks by various members on certain aspects of the proposed effort.

That afternoon the program will be sponsored by the Young Men's Activities Committee more details of which are shown on the next page.

The next morning's session will be given over to the general theme of "Minority Housing and Redevelopment" and participating in this program will be representatives of the principal government agencies concerned with each effort, as well as some of the prominent figures in the private enterprise side.

Wednesday afternoon is given over to committee meetings and that night will be the big night party in the ballroom.

The fourth and final general session on Thursday morning is devoted to "The Role of Government in the Financing of Real Estate" with President Clarke the moderator and the speakers to include Samuel E. Neel, MBA counsel, T. B. King, Veterans Administration, Norman P. Mason, commissioner, Federal Housing Administration, Washington, D. C. and Albert M. Cole, administrator, Housing and Home Finance Agency.

J. S. Seidman will speak on the new tax bill.

LOTS OF WORK AHEAD FOR COMMITTEES IN CHICAGO

Committee meetings at the Chicago Convention will be an important part of the activities. No less than eighteen MBA committees will meet during the week and of these three will be new to Association activities. They are the Committees on Redevelopment, Conservation and Rehabilitation, Financing for Racial Minorities and Insurance. Scheduled so far are:

Monday afternoon, September 27, meetings of the Clinic, Conventional Loan, Farm Loan, FHA, Insurance, Legislative, Mortgage Servicing, Research and Young Men's Activities Committees.

Wednesday afternoon, September 29, meetings of the Educational, Finance, Financing for Racial Minorities, GI, Membership, Membership Qualifications, Pension Fund, Redevelopment, Conservation, and Rehabilitation and Trust Fund Committees.

HOTEL RESERVATION AND REGISTRATION IMPORTANT

The most important feature of the Convention at this particular time is to make sure that your preliminary plans are in order. The most important of these is your hotel reservation. More than 1500 rooms and 150 suites have already been reserved at the Conrad Hilton Hotel where, it is hoped, all members who wish to do so may be housed. Incidentally, all suites have been taken. If, for any reason, you have not made your hotel reservations, you should do so at once by writing the Conrad Hilton Hotel direct.

The next most important item in your preliminary plans is your advance registration. This is important because advance registration means that your name will appear on the list distributed prior to Convention opening. Advance registration closes September 6.

Registration fee is $15 for members and $10 for the wives, the latter to include tickets to their theatre party and the luncheon and style show.

IT'S A GOOD CONVENTION YEAR FOR THE MBA LADIES

The MBA Convention this year will be one which members' wives will enjoy attending. Many of the Convention activities will have particular appeal for them and in addition a special program has been arranged especially for their pleasure. The big Wednesday night club party in the Hilton will be a highlight of the week. In addition, two attractive ladies affairs have been arranged, the first, a luncheon and style show in Marshall Field & Company's Narcissus Room Tuesday noon and the second a theatre party Wednesday afternoon. The show they will see is "Wonderful Town" with Carol Channing, guaranteed to please. In addition to all this, a booklet is being prepared which will be particularly helpful to the ladies in determining what to do and see.

YMAC WILL HAVE IMPORTANT SPOT ON PROGRAM

Philip Jackson

G. C. Dickerson

William Osler

R. P. Russell

MBA's Young Men's Activities Committee, which registered such a notable achievement with its first meeting the day following the 1954 Midwinter Mortgage Conference in Chicago, will again have a prominent place on the Convention program. In the only full afternoon session scheduled for the Convention, YMAC will sponsor on Tuesday afternoon a panel discussion moderated by President William A. Clarke. The four principal topics at the session will be:

Land Development as a Means of Creating New Mortgages by George C. Dickerson, Stockton, Whatley, Davin & Company, Jacksonville.

New Approaches to Acquisition of Income Property Loans by R. P. Russell, assistant vice president, T. J. Bettes Company, Houston.

Re-stimulating Mortgage Volume from Real Estate Brokers by Philip C. Jackson, Jr., vice president, Jackson Securities & Investment Company, Birmingham.

Market Analysis Preceding the Opening of New Lending Territories by William H. Osler, W. A. Clarke Mortgage Co., Harrisburg, Pennsylvania.

As it did before, the set program is likely to provide a springboard for discussions of many other topics. In any event, members are well assured that Tuesday afternoon will be lively time at the Convention.

EXHIBIT WILL ALSO BE LARGEST YET SPONSORED

The Chicago Convention will also be the occasion of the 14th annual presentation of MBA's Exhibit of Building, Industry and Services and it will be larger than ever this year. Twenty-five exhibiting companies and organizations will participate in the show to be held in the Normandie Lounge and Writing Rooms adjacent to the ballroom. These companies include General Electric Company, National Homes Corporation, Westinghouse Electric Corporation, United States Steel Homes, Inc., The National Cash Register Company, Great Lakes Steel Corporation, American Gas Association, Burroughs Corporation, Investors Diversified Services, Inc., Frederick W. Berens, Inc., Arizona Mortgage Bankers Association, York Tabulating Service, Inc., Carrier Corporation, Financial Publishing Company, Western Underwriters Association, Hartford Fire Insurance Company, The F. C. Russell Company, General Electric Company—Air Conditioning Division, The Rough Notes Company, Inc., P & H Homes, and Southern Statistical Co., Memphis.

Every one of these exhibitors has something of interest to mortgage men so plan to spend some time inspecting this interesting display.

PRES. CLARKE ON RADIO

The reasons for the current boom in construction and the outlook for the future of the industry were discussed on the second broadcast in the "It's *YOUR* Business!" series being presented by the National Association of Manufacturers. The program was broadcast coast to coast on the ABC radio network.

Featured in the discussion were Thomas S. Holden, vice chairman of F. W. Dodge Corporation, and W. A. Clarke, president, W. A. Clarke Mortgage Company, Philadelphia, and MBA president. Kenneth R. Miller, senior vice president of NAM, was the moderator.

A SURVEY IS A GOOD INVESTMENT

SECURING surveys of real estate pose important decisions. Is a survey necessary when your borrower builds a residence or a business building? Is a survey necessary when you lend money on old property? What about a vacant tract of land? What should a survey show so you will have adequate protection? Should streets on both sides and the distances to each be indicated? Should the survey show driveways and easements and the location of public utilities? How about the location of buildings and easements on adjoining properties?

When your borrower builds a building of any kind, it is a wise precaution to have the lot surveyed and stakes placed on the boundary lines of the lot and also at the corners of the proposed building. It infrequently happens that a house is found to have been erected partly, and sometimes wholly, on the wrong lot. Then there's trouble!

In one instance an entire row of detached residences was built and it was later found that each house was located half on the correct lot and half on the lot of the adjoining owner. All of this because the builder thought a survey was unnecessary, as an old survey stone was found at the corner of the block! Or rather he presumed that the stone was at the corner. This one happened to be in the center of the side street which had originally been an old country lane. It seems that there had formerly been a custom to put stones in the center and not at the side of such lanes. However, the false assumption that the stone was on the edge of the street put every house twenty-five feet away from the place where it should have been. The task of getting deeds from each owner to his neighbor—not to mention the releasing and rewriting of the numerous mortgages—can be imagined.

The need, or rather the absolute necessity of having one's lot surveyed when a business building is to be built, is rather obvious, as such a building usually occupies the entire frontage of the lot and sometimes all of the area. A survey will disclose the exact size of the lot and should be obtained before plans for the new building are drawn because it may well develop that there is a surplus or deficiency of ground in the block, or the neighbors' buildings may encroach somewhat on the lot to be built on.

Or, still more puzzling, the neighbor's buildings may be located a few inches away from the true line although wholly on his own lot. What can you do? Should you keep your building on your own lot and leave a small space or crack between the buildings to fill up with water or ice; or should you build up to the neighbor's building even though you encroach on his lot? Assuming that you could not buy the small strip of ground from the neighbor, the answer seems to be to build your building precisely on your line and to fill in the space between your building and your neighbor's with cement as your wall progresses. In this way you will avoid weather damage to your wall and when and if your neighbor decides to rebuild you can tell him that he can chip off the sliver of cement and use his entire lot without interfering with your wall.

By **McCUNE GILL**

President, Title Insurance Corporation of St. Louis

Boundary line troubles, however, are not the only difficulties that are avoided by a survey. There will frequently be found rights of ingress and egress as well as easements for sewers, water pipes and wires that are to be avoided or specially treated in erecting the building. Knowing the exact location and depth of water, sewer and steam pipes will prevent many costly mistakes in planning.

If, instead of building a house, your borrower is buying one already built, it is also usually necessary to have the property surveyed. Of course if you are buying a small cottage with a yard on both sides and it is on the corner of two made streets, it may be debatable as to whether a survey is necessary. But, in a less simple situation, a survey should be obtained. If

the house is in the middle of a block and the other lots are vacant there is really no way short of a survey whereby you can be sure that the house is really on the lot that the borrower owns.

If a business building is being mortgaged, a survey should always be had in view of the great probability of the building not conforming exactly to the legal ownership lines. The prevalence of party walls, that is, where one wall supports two adjoining buildings, is itself a sufficient reason for a survey. This is especially true if the borrower intends to tear down his building because if the wall is a party wall he must pay the cost of shoring, supporting, and weatherproofing the wall or perhaps the cost of erecting a new wall. It is sometimes difficult for an unskilled observer to determine whether there are separate walls or a party wall.

The reasons why a purchaser should obtain a survey apply with equal force to a lessee under a long lease, especially where the lessee is to make alterations.

It is standard practice now for many lending institutions to require surveys. This has grown out of long experience in such matters and many losses where surveys are not obtained.

But suppose it is a vacant tract and there are no buildings on the land. Do the arguments in favor of surveys still obtain? They do, for the price is usually a certain amount per acre or square foot and we know that the dimensions shown in deeds are seldom the dimensions found to exist on the ground, not to mention encroachments of neighbors' roadways, adverse possession and the like. And it sometimes happens that, through mistake or fraud, the lender is not shown the tract described in the deed, but some other and more desirable tract. The presence of a responsible surveyor will prevent such an occurrence.

Now, having decided to obtain a survey, what should we insist that the survey show? For not all surveyors are required or accustomed to investigate or to show on their survey plats all of the things that a lender should know about the lot. The survey should show the location and dimensions of the property. By location is meant a reference to monuments of a legal nature, such as section numbers or lot numbers, as well as physical and easily observable natural and artificial monuments such as rivers, creeks, streets, roads, railroads, fences, and the like. By dimensions is meant a showing of the measured distances between the stakes set by the surveyor and also the distances to the designated boundaries or location points.

In surveying an ordinary city lot it is often found that the surveyor gives only the distance to one side street. He should do more than that. He should show the distances to both side streets and to the next street in back of the lot. The purpose of such a showing is so that the lender or his lawyer may determine whether there is a surplus or a deficiency of ground in the block and whether such surplus or deficiency is to be added to or deducted from the supposed dimensions of the property. It may be remarked that such surpluses or deficiencies of distances and area occur very frequently.

Sometimes it is necessary to obtain much other information from the surveyor. It may be necessary to ascertain the condition of the ground for foundation work, or a topographical calculation of levels may be called for. The platting of switch tracks and the location of trackage easements or fee simple titles to strips across adjacent ownerships to the main railroad line is quite an art. And now we have similar problems with regard to trucks and highways.

The surveyor should certainly furnish a legal description of the property with every survey. Particularly necessary is this if the description must be by metes and bounds and courses and distances. If the property is to be divided into separate lots or tracts, legal descriptions of each part should be furnished.

Surveys should show not only the location of all buildings, garages, sheds, and other improvements and structural appurtenances, but should also show the location of sidewalks, driveways, paths, pole lines, and other objects on the ground. The survey should show the location of these items with reference to the property lines, so that it can be determined whether they are of a nature to create easements either in favor of or against the owner of the building in question, or whether they violate restrictions or record easements. The location of fences and hedges, indicating the extent of the possession of the parties, should also be shown, and it should be indicated whether the fences are located on the property in question, or on adjoining property.

Surveys should cover the location of cornices, eaves, bay windows, entrances, porches, signs, fire escapes, and other items above the surface of the ground, both on the building on the property, and on adjoining buildings, to ascertain whether any of these items constitute an encroachment either by or against the property in question. In one case the surveyor showed the location of the building, but failed to show that the entrance and walk were on the side and entirely on the land of the next door neighbor. The location of the walls of buildings on lots on both sides should be shown, as well as cornices and porches and all encroachments.

It is not necessary that the location

(Continued on page 33)

OLDER BUILDINGS *Are Often The Best Real Estate Investments*

By **LOUIS J. GLICKMAN**

AS AN investor of more than 20 years' experience in realty, it is my conviction that improvements erected before present building laws and zoning requirements came into effect will, in many instances, offer the best opportunities for successful real estate investment in metropolitan areas.

While it is true that older buildings must compete for desirable tenants with the newer, totally modern, air-conditioned structures, we should note some of the factors that make many older buildings attractive both to discerning tenants and to investors.

In the first place, a structure erected before today's zoning and building regulations were promulgated generally has more space available in the upper floors, where space is most valuable, than a building put up on the same size plot today could have because of the difference in setback rulings prevailing then and now.

As an example in New York, there is 42 Broadway. This building had approximately 300,000 square feet, renting for a total of $950,000 or an average of a little better than $3 per square foot. Built prior to present zoning laws, it has 100,000 square feet of space—in upper floors where space brings premium prices—in excess of the total rentable area that would be permitted under current building restrictions. Not only does this mean increased income potential for the investor, but it also gives him a powerful trading weapon—full-sized, upper floors—with which to compete for desirable tenancy.

Because of increased cost of construction, buildings today can not be erected at prime locations and rented for less than $4.50 to $5 per square foot. Older buildings can compete favorably with these rates, renting at lower figures and still offering tremendous net income situations. Citing 42 Broadway again, it can readily be shown that required prices for space in newer buildings enhance the value of older, well-operated office structures. An increase in rents to $3.50 per square foot (still considerably under the market for new buildings) will add $100,000 to the gross annual income of 42 Broadway without impairing its ability to compete with structures put up today.

The Commerce Building in St. Louis and the Pioneer Insurance Building in Houston, both of which I am familiar with, also offer interesting examples of this same economic advantage.

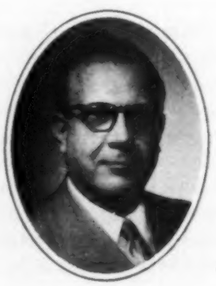
Making a silk purse out of a sow's ear should, naturally, prove a highly profitable venture. The endeavor could be quite practicable if the "sow's ear" is an older building in need of revamping to compete for top-drawer tenancy. Modernization or changes in interior structure to attract a different type of occupancy may prove tremendously profitable to the investor with imagination.

Such changes may well entail substantial capital outlay; but if well planned, the effect on a property's long-term income pattern can more than justify the expenditure. A building in Chicago, the State Madison, amply illustrates this point. This was a well built structure, originally occupied in its entirety by The Boston Store. To the purchase price of about $14 million was added some $7 million in expenses to convert the building so that it could house offices on the upper floors, and stores on the ground level. Although this was a departure from the usual procedure of looking for another department-store tenant—which, presumably, could occupy the property after comparatively modest alterations—the structural changes resulted in an enhanced profit picture more than justifying the expense.

A somewhat similar situation arose at 580 Fifth Avenue in New York. This building had formerly housed a bank on its ground floor which was, therefore, equipped with an unusually high ceiling. The logical thing, in most people's opinion, would have been to seek another bank to occupy these "tailor-made" quarters. But, as an investor, I could see a more profitable way to utilize the space. We added a balcony above the first floor which gave many additional feet of rentable space without lowering the first floor ceiling—a change that well proved its worth in increased income for the building.

Like any good cook who knows that, while her cake is very tasty, it's the frosting that gives the all-important first favorable impression, an investor

Louis J. Glickman is a real estate investor of long experience in the field of income-producing properties. His own recent investments have included large properties in Chicago, Houston, St. Louis, New York and Los Angeles.



must be sure that the external appearance and lobby of his structure are attractive enough to dispose prospective tenants in its favor—not to mention keeping older tenants satisfied. Such modernizing as was done at 42 Broadway, for instance, functions like better packaging for a superior product.

Many will be inclined to believe that older buildings are handicapped in competition for tenants because the new structures can offer that supersalesman, air conditioning. Air conditioning, like modern sound conditioning and lighting, can often be installed in older buildings. Sometimes it can be done throughout as is the case of the Herald Square Building in New York City. Under other circumstances, it can be done individually by tenants or in cooperation with the building owner. An interesting solution to this problem was made in one of New York City's best-known landmarks, the 50-story Irving Trust Company Building at Broadway and Wall Street, where one of the largest air-conditioning installations in the country is now going forward. This skyscraper, which was completed in 1929, was unequipped with air conditioning, and its owners wished to find some practical way to meet the competition of newer, fully air-conditioned buildings. All of the space occupied by the Irving Trust, the major tenant, is being air-conditioned. The remainder of the building is being provided with central refrigerating equipment and facilities so that chilled water is made available to any tenant desiring it.

Location is obviously a prime factor in determining real estate value. The more convenient locations in any metropolis are usually the first developed (for example, New York's Wall Street and city center area), for they become magnets in early development and improvement of transportation systems. Moreover, the financial center, unlike many other business locales, never changes once it has become established in a particular area of any city. This is of prime importance to the investor, because buildings of comparative age will remain in the first-class category in neighborhoods of proven character. Such is not always the case with newer structures put up in peripheral areas whose character is yet to be established or, mayhap, may be ultimately subject to adverse change.

SURVEYS GOOD INVESTMENT

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of these items should be measured to within a fraction of an inch. It will be sufficient if the location is indicated by stating, for example, that a certain driveway, bay window, or cornice encroaches 2 feet, more or less.

If the building is built along the property line, there should be an indication as to whether there appears a party wall, or if this cannot be determined, an appropriate statement as to the doubtful character of the wall. If the surveyor is in doubt as to whether there are footings underground extending across the property line, or sewer or water pipes or conduits, he need not excavate to determine such facts but should indicate the possibility in a general note on the plat.

The location of record building lines (front, side and rear), easement lines, and sewer rights of way, as indicated on the recorded plat of the subdivision, should be shown.

Where the building has not been started on the date of the survey, it should be amended later to show the location of the foundation and also to show conditions after completion of the building. The house numbers of all buildings should be shown both as they exist on the buildings and as they are recorded in the House Numbering Department of the City. A proper survey is also valuable in checking compliance with deed restrictions and zoning ordinance.

Mortgage bankers should always insist on adequate surveys.

» **GROWTH:** Total assets of the more than 800 U.S. life companies are estimated at $80,900,000,000 for June 30, compared with $75,403,000,000 a year ago and less than $40,000,000,000 ten years ago. These assets, averaging about $330 per policy, represent an increase of $2,700,000,000 since the start of this year.

HOW are we doing? When one says "How'm I doin'?" it generally is not to call attention to his mistakes or difficulties but suggests that he thinks he is doing pretty well. Clearly, we have not done badly in the first half of this year.

There are five major issues which seem to me crucial in judging the underlying business situation. These five issues center on the inventory problem, the consumer factor, construction figures, the trend of prices, and the interplay of government policy and private action.

HOW ARE WE DOING?

By EDWIN G. NOURSE

Business-wise, that is. The answer is: fine, for the first half of this year. But for the longer term, Mr. Nourse has a somewhat dissenting opinion about some of the factors which have created prosperity. He is the well known economist and former chairman of the President's Council of Economic Advisers.

There is general agreement that excessive inventories constituted one of the earliest and most conspicuous aspects of the mild recession of the last eight or ten months. The statistics show that business inventories were growing at a $6 billion rate during the first half of 1953. Productivity of our industrial machine was outrunning the buying activity of the market at that rate. In recent months the productive machine has been throttled down to a rate about $5 billion *less* than the speed at which goods are being sold. The total inventory figure has dropped from $82 billion last September to $79.9 billion in May.

What is the meaning of this statistical fact? Various commentators have recently referred to it as "a big drop in business inventories in April," as "inventories reduced below justifiable levels," and to "rebuilding of inventories" this fall as the initiating force in an active recovery. It sounds impressive if one says that inventories were trimmed by over $2 billion (or by $2.387 billion) from last fall to this spring. But that sheds very little light on the question of whether liquidation has been satisfactorily completed or whether we are now in a position to resume the triumphant march of boom prosperity that was interrupted by the "stretch-out" of the military preparedness program and the "new look" for 1953.

Here are two points that seem pertinent in judging both the facts and the significance of the inventory situation.

» These are business inventories and do not include government holdings of farm products — that rose from about $3¼ billion last May to about $6¼ billion this May. Nor does the business inventory figure include so-called military stockpiles that rose to some three quarters of a billion during the year and, like the farm surplus, bids fair to rise still faster in the near future. The stated objective is $6.8 billion.

» Inventory liquidation means reduction in new orders, less employment, and smaller disposable incomes. Hence whether the quite moderate liquidation conducted in the last quarter of 1953 and the two quarters of 1954 will prove to be enough for the conditions of next fall and winter

remains to be seen. If there is not a brisk pick-up in jobs, inventories may still be excessive.

The belief—or hope—is expressed in some quarters that rebuilding of inventories will be a stimulating factor in the second half of 1954 and on into 1955. This rests on the assumption that inventories have been reduced to a subnormal level by such liquidation as has already taken place and that it will only be good business to restore them to a higher level before this year is out. There seems to me, however, to be a fundamental inconsistency in arguing that the recession we have been experiencing was due to the fact of excessive inventories and then to say that it will be cured by building them back to their previous level.

In some quarters, enlarged consumer demand is looked to with confidence as the source from which early recovery to the boom levels of last year will surely come. It is pointed out that American consumers today are in the strongest asset position that they have ever been in — with so-called liquid holdings of cash, bank deposits, and government securities of some $230 billion and corporate securities guessed at some $200 billion. An indeterminable part of this huge sum could promptly be turned loose in the market, to bring a quick termination of inventory worries, resumption of orders, restoration of employment, and assurance of continuing profits. Some commentators show a disposition to tag the private consumer with responsibility if we do not have that sort of prompt upturn. One businessman recently put it thus: "The difference between boom and a recession hangs by the slender thread of the consumer's willingness to buy freely instead of hoarding."

It is true that public savings, according to such statistics as are available (and pretty slippery figures they are) have shown the rather high level of 7.5 to 8 per cent in recent years. It hit a $20 billion rate in the first quarter of 1954. But to characterize this as "hoarding" seems extreme because it contains so large a factor of provident saving, which has supported and will continue to support the market for consumer durables, for new dwellings and modernization, for education, and travel.

The more these things come into the standard budget of the wage and salary worker, the larger the "float" of savings must be. Even that part of them that is technically liquid can hardly be counted on as something that could or should be drawn into the market for consumer goods as a means of curing a recession. At the same time, they do play a distinct and important defense role as support under the market, preventing the shrinkage of volume or the collapse of prices of current consumption goods if unemployment should mount moderately from present levels or be continued for a somewhat longer time. They would come in as a second line of reserves against depression as the support from unemployment benefit payments was progressively sapped.

More significant for our present purpose than the past savings which consumers have accumulated is the high level of their current incomes. Those who look to the private consumer not merely as the bulwark against recession but as the guarantor of early return to boom conditions point to the fact that "disposable personal income" has been maintained in 1954 as at the high level of 1953. But it is yet to be proved that the level of the first five months will be kept up for the whole 12. And even if it should be, that is not enough to meet the issue. With the brisk rate of growth of our country, total disposable income must rise by an amount between $5 and $10 billion each year to maintain market demand even at stable prices. But what this reliance on the consumer to underwrite high prosperity as our foreign aid program levels out or declines and as the "broad industrial base" is attained, would be that consumer demand would be large enough not merely to show this rate of normal growth but also to offset the decline in government and business spending. If the consumer is to give the economy a great boost this fall or next year, we should see disposable personal income not just at or near last year's high level but $15 or $20 billion higher. It was about $2 billion higher in the first quarter of this year.

Some of the enthusiasts argue that because Americans expect and demand a higher standard of living, this will provide expanding markets and

full-employment jobs. On the housing side, they point out that many of the millions of new housing units built in recent years are "cracker-box construction" that already need to be replaced or that they have been outgrown by enlargement in the size of the families that first bought them. It is pointed out also that there are still millions of families that do not have modern laundry equipment, a television set, or a second car.

All this is undoubtedly a part of the long-run dynamics of industrial America. But the rate at which this kind of demand can be converted into a business boom in the autumn of 1954 bumps into the nasty little question, "What are they going to use for money?" It must be remembered that we were not getting all of the product of our enlarging and improving plant into consumers' hands even in 1952 and 1953. We have already noted that this discrepancy gave us the inventory problem with which we are now struggling.

Furthermore, in taking a practical measure of the market outlook for coming months we need to consider not merely the cash position of the consumer but also his psychological situation—not merely the money in his pocket, the hunger in his stomach, and the ambitious tastes of his family, but also the confidence or the fear that is in his heart. When overtime schedules are replaced by a short work week or repeated furloughs and when one sees his neighbor out of a job, there is a strong tendency to postpone new commitments while one makes sure he can keep up payments on what he has already signed up for. Last year's prosperity was aided by an increase of about $3.5 billion of consumer credit. Now repayments are running ahead of new commitments.

It is characteristic of a country as rich as ours and with as high standards of living that the average consumer has a lot of rather luxurious consumer durables over and above his spendings for current necessities. These are "postponables" and our consuming public is today loaded with them. It is important that aggressive salesmanship keep him replacing such items or buying additional ones as fast as his circumstances permit. It is important also that the employment and market policies of private business and the actions of government keep his spending money flowing as freely as possible and his propensity to consume up to the levels normal to our kind of enterprise economy. If consumers button up their pockets and decide they will wait till the storm blows over, they will be helping to bring on the very restriction of jobs and output that is most to be feared at this juncture.

Building Has Been the Brightest Spot

The construction industry has been giving a pretty glowing answer to the question: How are we doing in 1954? The latest figure of $3.1 billion for May set a new record for that month and puts the first five months of this year half a billion above the first five months of pre-recession '53. Isn't that a figure that really does "speak for itself"—and that in tones of reassurance as to the end of the dip and the imminence of an upturn? Personally I find it solid evidence of the backlog of demand our country still has for roads and schools and slum clearance. I find it less impressive as ground for thinking we are going to continue the same amount of industrial, commercial, residential building through the next several years. As I see the curve of family formation taking a dip as the children of the depression thirties come to marriageable age; as I see the evidences of excess capacity in many industrial departments; as I note the progress in meeting the needs for commercial facilities in our new suburban areas, I cannot help thinking it is prudent to examine carefully the question of what is a sustainable rate of construction activity for our economy.

The familiar term "speculative builder" attests to the well-known fact that a period of highly gratifying building activity traditionally leads to a longer or shorter period of reduced activity while effective demand catches up with daring private enterprise. I see many reasons why a letdown in commercial, industrial, and domestic construction might be short and mild in the 1950's. But I suggest that it is a bit on the reckless side to assume that it will be entirely absent this time. Here again it would be foolhardy to try to dogmatize about an answer. The issue goes back to the fundamental issue of price, cost, and income relations.

It is a matter of common knowledge that all our principal indexes have shown remarkable stability, not only during the recent recessionary turn but back through '53 and even into '52. This is often pointed to as one of the greatest sources of reassurance or factors of strength as we look forward to the rest of this year and to next year. I would agree that the fact that prices did not rise wildly at the height of the boom period was a reassuring sign of stabilizing factors within the economy. That is to say, our enlarged productive capacity was then demonstrating its ability to supply the needs even of a hyperactive economy without creating price-boosting scarcities and speculative maneuvers. But is the continued stability of prices (with even a slight upward

creep) an equally reassuring sign under present circumstances?

Technological progress and rising productivity should spell greater abundance, lower unit costs, price reductions, and ampler consumer satisfactions. In general this process works out through the flexible and natural processes of market competition. But today we have very large areas of administered prices, where the policy of the executive group can more or less supersede or modify the process of market competition. Here I refer to costs of materials and labor just as much as prices of finished products.

This then makes the test of the functioning of a free economy with which we are now coming to grips. It is common to hear businessmen say that there is a period of sharper competition ahead. But will they face and accept that competition so courageously and promptly as to make a market for the enlarging product within the absorptive power of current incomes and reasonable and self-liquidating credit extensions? The fact that prices have been fully maintained on the average, and market volumes have declined seems to me a cause of concern rather than an occasion for rejoicing.

In my bŏok of economic analysis the pivotal issue for this year and next is what policies big business management and organized labor leadership will follow in this testing time. Will they, peacefully and voluntarily among themselves, make terms of private trade that will enable management to offer enough jobs to keep the labor force employed, to have earnings large enough to keep up an adequate rate of internal investment, attract the public's savings, and justify ample credit extensions? If profits fail, it will not be possible to attract outside capital for industrial growth or to pay dividends on the worker's savings, his union's assets, or the reserves in his insurance company or pension fund. But the voluntary terms of trade between employer-producers and worker-consumers must also embrace such a schedule of prices for goods and rates for "utilities" and other services as will permit all would-be consumers to take the full-scale product of our great productive machine off the market within the purchasing power of their disposable incomes.

The two-pronged danger in the present situation is that management may rely too much on volume reduction to protect over-rigid formulas of profit margins and that labor may use its mass power to force cash wages up to protect the purchasing power of this week's pay envelope even when it impairs the employer's ability to give jobs or reduces the number of workers who have any pay envelope at all. This is the central challenge to collective bargaining in good faith and in good understanding of the fundamental nature of the economic process.

Question: What Will Government Do?

The last question to examine is what part government is playing or will play in the steadying of our economy in the troubled waters through which it is now moving and in the partnership with business which will maintain the high production economy as we get through present adjustments. I daresay that many businessmen have found it rather comforting to have the President and other high functionaries of government say that there is not going to be a depression because they have the facilities, the know-how, and the determination with which to prevent it. It is unquestionably true that the federal government today does inevitably play a larger part in the affairs of the economy than it did a generation ago and that it has a better understanding of the economic statesmanship needed to discharge that role soundly as well as vigorously.

There could be no greater mistake than to assume that the economy will be stabilized merely through federal policy and action and that private business and labor executives need be concerned with nothing more than their own organizational housekeeping. The present Administration has stressed the point that it conceives its role primarily as creating favorable opportunities within which private business can operate securely and profitably. Its general approach to its fiscal role—that is, federal spending and taxing—has, I think, been essentially sound, whatever minor flaws you or I might pick in it. Likewise I feel that in the area of monetary policy, which must be a federal function, the Federal Reserve System has shown both a sound policy outlook and technical competence in furnishing the country with an elastic currency, progressively adjusted to the changing needs of business.

In a country as technically progressive and as rich as ours, a larger part of the flow of national income will normally be channeled through the public Treasury, and this without any infringement on the principle of free economic enterprise. We have found in our practical experience that it is most conducive to prosperity and economic growth to organize many lines of productive activity through private companies, from the small proprietorship to the multi-billion dollar corporation. But we have also found that the level of consumer satisfactions that could be attained for our people is higher and is better timed and distributed if we organize them through

(Continued on page 39)

Prefabricated Home Manufacturers Institute has established a Mortgage Financing Committee which will co-operate with representatives of MBA to develop improved facilities for financing the sales of factory-made houses, Gen. John J. O'Brien, PHMI president, announced.

He said the Committee would work with a subcommittee which MBA's Research Committee has formed to establish liaison with the prefabricated homes industry.

William B. F. Hall, president, General Industries, Inc., Fort Wayne, Ind., is chairman of the PHMI Mortgage Financing Committee. Serving with Hall are Harry Black, United States Steel Homes, Inc., New Albany, Ind.; Kenneth Eden, Thyer Manufacturing Corp., Toledo, Ohio; Frank P. Flynn, Jr., National Homes Corp., Lafayette, Ind.; Edward H. Hwass, Harnischfeger Corp., Port Washington, Wis., and John C. Shelton, Florida Builders, Inc., St. Petersburg, Fla.

» CHANGE: Lester R. Giegerich has become associated with Sidney M. Barton Company in New York.

He was formerly mortgage officer of Teachers Insurance & Annuity Association, New York, a graduate of the Wharton School of Commerce and Finance, University of Pennsylvania. He served five years in the air force as a pilot, with rank of major.

Prior to joining Teachers he was with Travelers Insurance Company, Mortgage Loan Department.

» NEW FIRM: The Richards-Woodbury Mortgage Corporation has been formed in Salt Lake City. Principles are Franklin D. Richards, Donald M. Alstrup, Franklin D. Richards, Jr., Robert L. Judd, David K. Richards, F. Orin Woodbury, Herbert C. Redman, Melvin L. Woodbury, Orin R. Woodbury and Wallace R. Woodbury.

» MBA OUTINGS: Among other things, summer brings out the golf outings of local mortgage associations over the country.

New Jersey MBA had theirs with a dinner at Suburban Golf Club in Union, New Jersey. Almost 200 members and guests played golf, competing for a host of prizes, and completing the day with a fine beefsteak and lamb chop dinner following the annual custom which has been in effect for the last ten years. Francis R. Steyert, president, and president, South Orange Trust Company, presided at the dinner. Chairman for the committee was Raymond A. Mulhern, vice president, Underwood Mortgage and Title Company.

Metropolitan Washington MBA held its first golf outing with a buffet dinner and dance at the Kenwood Country Club. Approximately 150 members and guests attended. The President's Cup was presented by George W. DeFranceaux, president of the local MBA, and awarded to Alan B. Prosise, Jr. of McIntosh & McIntosh, Inc. for the low net by member, with a net of 72. Other awards were to: Edward Wise, Arlington Realty Company, second low net by member; J. Tyler Bowie, G. Calvert Bowie, low gross by member with a score of 77; H. Loy Anderson, Metropolitan Mortgage Company, second low gross by member; Donald McCormack, The Riggs National Bank, low gross by guest; Louis Russell, Walker & Dunlop, Inc., low net by guest; Bernard Cooper, Weaver Bros., Inc., long driving contest; Perry Hall, The Riggs National Bank, hole-in-one contest; and Charles Murphy, Arlington Realty Company and Martin R. West, Jr., Weaver Bros., Inc. and George W. DeFranceaux of Frederick W. Berens, Inc. won the blind bogey contest.

At the Washington MBA outing, William L. King, Boss & Phelps Mortgage Company and MBA regional vice president; Mrs. H. Loy Anderson, wife of H. Loy Anderson, Metropolitan Mortgage Company, and George W. DeFranceaux, chapter president. They are admiring the cup won by Mr. Anderson who probably would like to be holding it himself.

Chairman of the affair was Robert McIntosh, McIntosh & McIntosh, Inc.; vice chairman was Joseph Mahoney, Jr., Bogley, Harting & Hight, Inc. Bernard Cooper of Weaver Bros., Inc. was golf chairman.

One of MBA's oldest members in point of years given to the Association's welfare is celebrating his 50th year in the mortgage and real estate business. He is G. Calvert Bowie, a long time member of the MBA board, who started his career with the H. L. Rust Company in Washington, D. C. in July, 1904. Local Washington, D. C. mortgage bankers recognized this anniversary by tendering Cal a commemorative luncheon.

G. C. Bowie

Walter L. Greene, formerly FHA commissioner, has joined Housing Securities Inc., New York, as vice president.

H. F. Philipsborn & Co., Chicago, announces the election of Robert Jacobsen as vice president. He is in charge of industrial financing, debenture loans, purchase-lease deals and commercial loans. He joined the firm three years ago after a long association with First Management Corporation where he handled the account of Penn Mutual Life Insurance Co.

Indianapolis MBA Group Hears Clarke

Citing the confusion and conflicting viewpoints regarding the present housing legislation as an example, President W. A. Clarke told the Indianapolis MBA that there is a pressing need for educating legislators for a better understanding of housing and real estate financing.

President Clarke was greeted by a capacity crowd in his address before the group. He took occasion to praise the work which has been done by the Indianapolis Redevelopment Commission.

Seated at the speakers table were, left to right, William P. Jennings, representing Marion County Residential Builders; R. J. Mitchell, Loan Guaranty Officer VA; William D. Cameron, president of Savings and Loan League of Indiana; W. C. Rainford, president of Mercantile Mortgage Company of Granite City, Illinois; H. Duff Vilm, member of the board of governors of MBA; President Clarke; Earl Layne, president of Indianapolis Mortgage Bankers Association; Robert W. Stockwell, vice president of Union Title Company; Joseph M. Downs, vice president of Ohio State Life Insurance Company; Clarence A. Jackson, president of American United Life Insurance Company; Firman C. Sims, president of Indianapolis Real Estate Board; Charles M. Dawson, FHA Director for Indiana. Joseph W. Van Briggle, executive vice president of Home Builders Association of Indiana, Inc., was also seated at the speakers table but not shown here.

Out of town visitors for the event included: Connersville, Leroy C. Hanby, William Fiant, John W. Wilson, Ellis Breitenbach, William B. Cameron, Dale Chomel. Fort Wayne: William B. F. Hall, John Straub and William Armstrong. Lafayette: Robert W. Buckley, Paul M. Kelly, Paul E. Colestock, Reed Kelso, John King. Terre Haute: Paul J. Pfister, Howard Potter, Kenneth Hickman. Danville: Crawford Taylor, Jake Weber. Marion: John Dillon, J. Bertrand Ewer, Lloyd Finch. Frankfort: R. Adrian Marks. Evansville: J. D. Carter, Larry Fitzgerald. New Albany: Mr. and Mrs. Dale Mitch, Mr. and Mrs. Dan Conner. North Vernon: Wilbur E. Beeman.

HOW ARE WE DOING?

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public administration and channel their revenues and disbursements through the public treasury.

While we were reveling in the delight of a new system of personal transportation, the level of family housing was not keeping pace with modern technology and the rising productivity of our country. Here again public enterprise was called for. We cannot break down the rigidities of private ownership in obsolete housing and commercial facilities and do justice to private property rights at the same time that we are tapping the dynamic possibilities of modern home construction and furnishing unless the government plays a role comparably active to that which it did in its partnership with the automobile industry. Easy housing credit and subsidized slum-clearance are the methods that we are using. Unless government plays a responsible part in this program I think we shall be moving forward less rapidly than we might—not fast enough to keep our national resources fully in use. In fact we now are seeing a healthy rivalry between public and private projects for rebuilding our cities as is notably illustrated in the Golden Triangle development of Pittsburgh.

The spending of states and municipalities on roads, streets, and parking facilities, on schools, hospitals, and other community facilities, is one of the strongest props maintaining our economy at as high a level as it has been running while military expenditures are being drawn down.

There is an old saying that the really great and progressive nation is one whose citizens are ready to work, to save, and to tax themselves.

There's Stability in Market For Commercial Property

Annual survey shows market strong and vacancies few. Desirable office space not easy to find and prices of city office buildings holding well.

THE market for commercial property has remained strong during the past six months, and three-fourths of a cross section of real estate boards predict that prices will continue at present levels during the last half of the year.

These are two of the points which are brought out in NAREB's 57th semiannual survey of the real estate market. A total of 246 real estate boards throughout the country took part.

The survey disclosed that a high level of activity in the market for retail business property and office buildings has been maintained throughout the last six months. Substantially more than half of the reporting boards said that all phases of the commercial property market—prices, sales or transfers of property, rents, and vacancies—had remained stable during the period.

Retail Business Property

The current plateau of economic prosperity, as measured by business activity and consumer expenditures, is reflected in the strength of the market for commercial property.

Prices of centrally-located retail business structures are the same or higher than they were six months ago in most cities. They were reported as stable by 68 per cent of the boards and higher by 9 per cent.

Outlying retail business structures are similarly attracting investment. Prices consistent with those prevailing six months ago were said to dominate the current market in 56 per cent of the places, while increased prices were reported for 18 per cent.

A sustained high level of activity characterizes the market in general. The number of transfers of outlying retail business properties is said to be the same in 56 per cent of the communities and greater in 22 per cent. Concerning central city retail outlets, fewer cities report accelerated volume of sales. Eight per cent ascertained that the number of transfers was higher than six months ago, and 62 per cent quoted them as the same.

Rental strength continues to provide firm foundation for retail business property values. Three-fourths of the returns identified rents as unchanged from six months ago, and 8 per cent said that they are higher.

Vacancies are insignificant in most areas. For half of the participating places, they are "1 per cent or less," and for an additional 22 per cent they are only "2 per cent." Vacancy rates of from "3 to 5 per cent" were reported by 20 per cent of the communities and rates of "6 to 9 per cent" by 7 per cent.

Most real estate boards expect current price levels to continue. In predicting for the second half of 1954, 71 per cent voiced the opinion that prices of retail business property would be stable. Thirteen per cent forecast higher prices, and 16 per cent believe they will be lower.

Office Buildings

Growth of demand for office space has kept pace with the record high construction achievement through which thousands of units have been added to the supply during the past few years.

Desirable office space continues at a premium in most cities. For only 11 areas were vacancies reported at rates in excess of "5 per cent."

In more than half of the participating communities, vacancies are said to represent "1 per cent or less" of the supply. A vacancy rate of "2 per cent" is listed for 26 per cent of the places, and "3 to 5 per cent" for 16 per cent.

Rents are, in the main, unchanged from levels prevailing six months ago. Four of five reports quote them as the same, while they are said to be higher by 6 per cent of the respondents and lower by 13 per cent.

Stability of rents and shortage of vacancies firmly support the current market for office properties. The constancy, characteristic of recent years, is continuing according to most returns, both regarding downtown and suburban structures.

The forecasts concerning probable price trends are rooted in the current strength of the market. Values are expected to continue at present levels by 76 per cent of the boards. A decline during the second half of 1954 is anticipated by 16 per cent, and a rise by 8 per cent.

Chicago MBA Victory in Anti-Trust Suit

AFTER being in the federal court for more than 5½ years, a decision has been rendered in the anti-trust suit by the Government against the Chicago MBA and 35 of its members and the result is their full and complete vindication.

In his opinion, Judge Win Knoch held all of the government's charges to be unfounded, holding that "the plaintiff is not entitled to any of the relief sought in the complaint and the complaint should be dismissed." The opinion further stated "It is found that neither the Association nor any of its members has had the intent to restrain trade in the mortgage business in the Chicago area, or has done so with respect to any of the matters charged in the complaint." . . . "None of the alleged actions of the defendants, so far as established by the evidence, constitutes a contract, combination in the form of a trust, or conspiracy in restraint of trade. None of such actions had any substantial or adverse effect on interstate trade or commerce. . . . The government is not entitled to relief."

The background of the suit is an interesting one and harks back to the days not too long ago when anti-trust suits were cropping up almost daily in many industries.

In October, 1947 the government made a complete examination of the Association's records and the following March subpoenas were served on the Association and sixty-five of its members. Nothing further was heard on the matter until July, 1948 when subpoenas were issued to twenty-one individuals to appear before the August grand jury. Eighteen testified in hearings over a period of several weeks. Further conferences with the anti-trust division of the Justice Department were held by Chicago MBA attorneys and the Department concluded not to ask for a criminal indictment, but no assurance was given that a civil suit for an injunction against certain of the alleged restrictive practices would not be brought.

Then, on December 9, 1948, a suit was filed by government attorneys as a civil complaint. It charged that the Association and its members conspired to suppress competition in the loan business by fixing minimum commissions, service fees and interest rates in connection with FHA loans and various other charges. It also asked that the Association be dissolved.

In the trial which ended last January 26, the government presented documentary evidence only, calling no witnesses. The defense called ten witnesses in addition to presenting documentary evidence.

During this 5½ year period the Chicago MBA and its members have shouldered the burden of expensive litigation and, in many ways, had to defer constructive plans for the organization. While the Mortgage Bankers Association of America was in no way involved since local mortgage associations have no direct connection with it, the fact that the suit existed caused concern to some members. Now, happily, the matter has been disposed of and it seems to be a reasonable assumption that developments of this sort will not be seen again.

FARM LOAN APPLICATION

(Continued from page 27)

Audit Application. In taking the application leave no question unanswered or space unfilled. Furnish plats with application if possible. Obtain from Grazing Service or Forest Office full information concerning grazing or forest permits in terms of the number of head of cattle or sheep, date and expiration, the grazing period, name of Grazing District or National Forest. If lease is included, give similar identifying information from official records. Before forwarding application make sure that the statement is balanced, all tabulations are correctly totalled, and that there are no other errors, or omissions, as we will be compelled to return to the applicant or finder any application which is not complete and correct.

Timing. When should annual principal payments come due to best meet income from farm or ranch? Delinquencies can often be avoided if payments are properly timed.

Consider Holding a Farm Loan Clinic

One of the things in the planning stage for 1955 is the possibility of a Farm Mortgage Clinic. MBA hasn't sponsored anything like this in many years and it will surprise many present-day members to know that we formerly had them quite regularly. What may be equally surprising is the fact that the very first educational course MBA sponsored was a Farm Mortgage Seminar at Purdue University. It was highly successful but the membership which it could draw upon was not extensive enough to insure continuance year after year.

There is more interest in farm loans among MBA members now than in many years and the present Farm Loan Committee, headed by A. L. Bartlett, Jr., thinks that the time may be here for a farm loan meeting. What dǒ you think? A full expression of opinion from members is sought; and it will be appreciated if you will fill out the coupon below and mail it promptly so present plans may proceed.

(Cut out and mail)

Would you be interested in a Farm Loan Clinic and would you attend? Yes______ No______

What are some of the subjects you would like to hear discussed?

Where and when would you prefer to hold it? The day following MBA's Midwestern Mortgage Conference, Chicago, February 24-25 ______Or some other time and place. Suggest time__________

Suggest city__________

Fill out and mail to A. L. Bartlett, Jr., Chairman, Farm Loan Committee, Mortgage Bankers Association of America, 111 West Washington Street, Chicago 2, Ill., along with any other suggestions you have.